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ABSTRACT

A study identified the environmental and personal factors that promote or hinder the development of entrepreneurship in the informal sector in South Africa. A developmental perspective of informal businesses set forth in the literature supported the global approach chosen for the research. Information was acquired through indepth interviews with seven groups of respondents: informal business owners, customers, formal business owners, suppliers, financiers, representatives of business organizations, and municipal officials. Specific research aims were formulated for each group. Biographical descriptions of the group and/or descriptions of the business or association were developed. Informal business owners were surveyed regarding resources available in the immediate environment, perceptions of the type of customers that support the business, interactions with other businesses, and official recognition. Information collected from other groups focused on their perceptions of and interactions with informal businesses. Training implications of the findings were identified. A national training strategy for development of the informal sector and a structure of a separate training body for the informal sector were proposed. Guidelines regarding the training necessary to enable entrepreneurs in small businesses to start up, run, or expand their businesses in the informal sector were developed. (The report contains 129 tables and 13 figures. Fifty-one references are listed.) (YLB)

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The NTB/ HSRC Investigation into

TRAINING FOR THE INFORMAL SECTOR

Main Report

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NTB/HSRC INVESTIGATION INTO TRAINING FOR THE INFORMAL SECTOR

Ros Hirschowitz
Jann Acutt
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HUMAN SCIENCES RESEARCH COUNCIL

MM 135

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The undersigned formed the work committee which oversaw the research process.

We trust that this report will be of value towards the upliftment of the informal sector in South Africa.

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CHAPTER 1

BACKGROUND TO THE STUDY

1.1 INTRODUCTION

> *"For observers surrounded by imported steel, glass and concrete, it requires a leap of the imagination and considerable openness of mind to perceive the informal sector as a sector of thriving economic activity and a source of ... future wealth" (ILO Mission in Kenya, 1972; cited in Meier 1976:214.)*

A leap of the imagination is indeed called for when looking at the informal sector in South Africa today. The way in which it functions is usually seen in stark contrast to the way in which the sophisticated formal sector functions. If direct comparisons between the two sectors are drawn then the potential vitality of the informal sector is unlikely to be recognised. But we do need to take this imaginative leap to realise that this sector has the potential to grow and develop and to contribute to the wealth of the country. The dynamic forces as yet still lying dormant in this vast sector need to be set free.

1.1.1 The potential of the informal sector

One reason why a flourishing informal sector is important to South Africa at the present time is that it has the potential to create employment. Each new entrant to the labour market who starts his or her own business is creating at least one new employment opportunity, namely that of becoming a small business owner. This creation of one's own employment is significant if it is borne in mind that at the present time, the formal sector has failed to create sufficient employment opportunities to keep up with demand.

Table 1.1 (Central Statistical Service (CSS) 1989) indicates that between 1984 and 1988, the number of employment opportunities in the formal sector has remained rather static. (All tables and figures for each chapter will be given at the end of that chapter so that the flow of the text is not interrupted.) This table shows that overall, there were extremely few new employment opportunities that were created during that time. This applies particularly to those sectors, namely agriculture, mining and manufacturing, that have in the past absorbed workers from disadvantaged backgrounds. In these three sectors, instead of more work being created, there was actually a decline both in the total number of jobs and in the proportion of employment opportunities, by 1988. Since then, in view of the economic recession, it is highly likely that the total number of jobs in these sectors has declined even further.

These static, or in some cases, declining employment trends in the formal sector need to be seen in relation to the size of the economically active population. This population is defined as all those who are actually employed as well as all those who are unemployed and want to but cannot find work and all those who are seeking work. The size of this economically active population was 10 655 000 in 1988, rising to 10 856 000 in 1989 (Central Statistical Service 1990a; these figures include the *"self governing territories"* but exclude the Transkei, Bophuthatswana, Venda and Ciskei). Table 1.1 indicates however, that in 1988 there were only 7 778 000 employment opportunities. The discrepancy of almost three million people between the economically active population and the number of actual employment opportunities that existed in 1988, as recorded in these official statistics, gives reason for concern. There are increasing numbers of people who wish to enter the formal labour market but who find themselves unable to do so.

This problem of a severe shortage of employment opportunities in the formal sector is likely to increase in the near future. If one looks at the percentage of people in each age group, according to population group (Figure 1.1), then it is clear that the proportion of young people in the disadvantaged black, coloured and Indian communities is relatively large. For example, Figure 1.1 (Central Statistical Service 1989) indicates that in the black population group, more than half (51,3 %) of the people were younger than 20 years of age at the time of the 1985 census (15,9 % were aged from 0 to 4 years, 13,3 % from 5 to 9 years, 11,6 % from 10 to 14 years and 10,5 % from 15 to 19 years). In the near future, many of these young people will want to enter the labour market and will actively seek employment. However, both educationally and as far as manpower planning is concerned, no provision has been made for the future employment prospects of these people.

Unless a significantly higher economic growth rate of the formal economy can be achieved in the next few years, and this is certainly not happening at the present time, the unemployment crisis of this country will become even more acute. However, the finding of Coetzee *et al.* (1990) that structural unemployment is growing and that there is a decline in the labour absorption capacity of the economy, gives even more reason for concern. Even in times of economic upswing, the trend has been for fewer jobs to be created in relation to the growth rate of the labour force.

A definitive study, undertaken in 1972 by the International Labour Organisation's (ILO) Mission to Kenya (cited by Meier 1976 : 215) on the potential contribution that the informal sector could make to the economy of that country, supports Coetzee's findings. This study indicates that the use of technologies were inappropriate for employment creation in developing countries and rising wages in the formal sector inhibited the number of jobs that could be created, relative to the growth in size of the labour force, in spite of high levels of economic growth that were occurring in Kenya at that time. This finding is highly relevant to present day conditions in South Africa. Even if the economy grows significantly in the next few years, it is highly likely that structural unemployment will still be a feature of the labour market.

It is therefore becoming increasingly necessary to look at alternative ways of creating employment in South Africa at the present time. Instead of focusing exclusively on the idea that job creation is the only way of attaining the goal of economic empowerment, other ways of income generation need to be examined. The informal sector is one such alternative method of generating income.

The spontaneous way in which this sector has developed in recent years in South Africa indicates that it is a potentially viable contributor both to employment creation and to the wealth generation of the country. It is however extremely difficult to realistically estimate the size of this sector because of its hidden nature. A recent survey conducted by the Central Statistical Service (CSS) among all population groups except the whites (1990b), is the most comprehensive study that has been done to date to estimate the size of this sector. This study indicates that among the coloured, Indian and black population groups, there were approximately 2 727 000 people working in this sector in either a full or part time capacity. This figure includes housewives, scholars and retired people who are not normally regarded as being economically active.

On the other hand, if only those who are normally regarded as being economically active were to be counted, then approximately 1 673 000 people were found to be working in this sector. According to the findings, 7 % of coloured, 13 % of Indian and 23 % of black economically active people were engaged in statistically unrecorded economic activities in October 1989. Since white people were excluded from the survey, no official figures of the number of white participants in the informal sector are available.

According to the findings of this survey the businesses in this sector were highly likely to be very small, or micro-enterprises, in that relatively few people, other than the owners, are employed in them. Table 1.2 indicates that while more than 2 331 000 people had their own businesses, less than 400 000 were employed in these businesses as employees. Employment is created through replication of informal businesses, rather than through giving work to employees. This pattern of employment creation was observed by Dewar (1987) in the Durban metropolitan region.

This table also indicates that a wide variety of economic activities were being carried out in this sector, the most common being trade and hawking. A large group of males, however, particularly Indian males, were engaged in manufacturing activities such as carpentry and metalwork.

The majority of people working in this sector were highly likely to be very poorly remunerated for their efforts. Table 1.3, based on the CSS survey (1990b), shows that just under a third (32,3 %) of business owners in this sector were earning a net monthly income of less than R 150 a month, and almost two thirds (60,6 %) less than R 350 per month. The median income was also rather low: R 233 per month among coloureds, R 355 per month among Indians and R 256 among blacks, giving a total median income for all population groups, excluding whites, of R 257 a month. This income distribution in the sector indicates that at present most informal businesses are entered into as survival strategies.

In spite of the poverty of a large proportion of these business owners, a substantial sum of more than R16 027 million was earned by the participants of this sector as a whole, which according to the Central Statistical Service is nearly eight percent (7,9 %) of the total Gross Domestic Product (GDP) of the country, although obviously these sums were not included in the calculations of the GDP. This amount is more than the contribution of either the transport (6,7 %), the electricity (3,8 %) or the construction (3,6 %) industries to the GDP (Central Statistical Service 1989).

The informal sector in its present form cannot, however, be seen as a panacea for solving the unemployment crisis in the country and for creating wealth. It is still in its infancy and is at present at a crossroads. It can develop in at least two ways. On the one hand, it has the potential of developing into a dynamic sector of thriving economic activities. On the other hand, it can fail to develop. It can remain a sector which is characterised by poverty and a struggle for survival for the majority of its participants.

It is therefore essential to examine the ways in which the informal sector can be encouraged to grow and develop rather than to remain static and marginal.

1.1.2 The need for training in the informal sector

One important way of enhancing the development of the informal sector is through training. Such training should be seen as a process which increases the range of skills available to business owners or potential business owners to enable them to start, to run and to expand a business. It includes giving advice, counselling and consultations and giving follow up or after care services to business owners after training has been completed.

However, training implies even more than this. It means that other people who are actually interacting with or who could potentially interact with informal sector business owners should also become partners in a training process. They too can make a contribution to the development of this sector. For example, the formal business owner may need training regarding the ways in which partnerships or subcontracting arrangements can be entered into with informal business owners. Financiers may need training to enable them to develop new criteria to evaluate the potential of these types of businesses so that more loans can be granted to business owners in this sector. Municipal officials may need training as trainers so that they in turn can train informal business owners in health and safety standards. A general awareness programme for the public may also be necessary as a training strategy to alert as many people as possible to the importance of this sector and to encourage them to support informal businesses.

1.1.3 Research into the training needs of the informal sector

The training of all people in South Africa so that they can be enabled to contribute to employment creation, to increased productivity and to the growth of the economy of the country, is of vital significance to the whole country. The National Training Board plays an essential role in the promotion and co-ordination of training for the country. It has recognised the important role that training can play in the encouragement of the development of the informal sector.

In a previous National Training Board / Human Sciences Research Council investigation *"Skills training in the RSA"* (1989), an important area that was covered was that of skills training for small business development, including the informal sector. This investigation indicated that there is a need for a training strategy for small business development generally and for the informal sector in particular, so that training efforts in this area could be co-ordinated and integrated.

A report based on this study concluded that *"... training, facilitation and spontaneous development of small businesses (including informal sector businesses) go hand in hand. Any training policy which aims to encourage small business development needs to take the culture in which the businesses function, the skill levels in the community, the informal networks and the resources available to the business into account"* (Hirschowitz *et al.* 1989).

It is against this background that the National Training Board commissioned the Human Sciences Research Council to undertake a research project *"An investigation into the socio-economic factors influencing the viability and the promotion of the informal sector for training and job creation"*. The objective of the investigation was that it should lead to the formulation of guidelines to facilitate the development of training programmes specifically designed to promote the potential growth of the informal sector.

The brief given to the researchers was that not only the informal business owner but also the context in which the business functions should be taken into account. A better understanding of the factors

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inhibiting and those encouraging the development of the informal sector would enable more appropriate training guidelines to be formulated.

1.2 AIMS OF THIS STUDY

The main aims of this study are:

- To determine the environmental and personal factors that promote or hinder the development of entrepreneurship in the informal sector.
- To use this fundamental framework to develop guidelines regarding the training that is needed to enable potential entrepreneurs in small businesses to start up, to run or to expand their businesses in the informal sector.

1.3 EXPLANATION OF THE TERM "INFORMAL SECTOR"

Before the researchers' approach to the investigation to achieve the above aims is described, the way in which the term *"informal sector"* has been used in this study needs to be explained, since various people use the term in different ways. A definition of this sector will however not be attempted because the very nature of this changing business scene defies definition. Informality is a dynamic process rather than a static condition. It encompasses a whole spectrum of economic activities from scavenging and hawking to manufacturing goods and offering services. Table 1.2 gives some indication of the vast array of activities that are being performed informally.

According to the ILO's Mission to Kenya (1972: cited by Meier 1976), informal activities are a way of doing things that differs from the way in which they are done formally. Table 1.4 indicates the characteristics singled out by the ILO that distinguish formal and informal businesses. This way of viewing these sectors is however based on a dichotomous typology, which in turn, is an abstraction and a reification of reality. A continuum, rather than a dichotomy, could perhaps better describe the process of development from an informal micro-enterprise to a large corporation. But such a continuum also has its disadvantages, since it denies that barriers exist and that there are leaps that have to be taken to progress from one phase of business development to another. There are stages of informality and stages of formality.

Wolmarans's (1990) definition of an *"entrepreneurial stairway"* as presented at the biennial Conference of the Development Society of Southern Africa is relevant here. According to this model, there are different levels of entrepreneurship. To move from one level to the next means bridging a *"transitional gap"*. Whether or not this gap can be bridged depends on a variety of socio-economic and personal factors. It also depends, at least to some extent, on training. The idea of a stepwise progression was an important one to take into account in describing the informal sector for this study, because different types of training may be needed for different stages of business development. The person wishing to start a business may have different training needs compared to the person already running a business and compared to the person seeking to expand a business or to enter the formal sector.

A distinguishing feature of the informal sector that was regarded as important in this study was the lack of positive official recognition given to it. This means, among other factors, that its contribution to the GDP is not recognised. It is unrecorded in the national accounts. In quantifiable terms, this means that formal businesses generally have a General Sales Tax (GST) number, while informal businesses generally do not.

The status of formality entitles the business owner to certain benefits such as access to finance, to business premises, to technologically advanced equipment and methods of making goods and providing services and to cheaper supplies. But it also means that these businesses are subject to regulation and to taxation.

The lack of positive official recognition of informal businesses means that they remain hidden. Expansion of these businesses under these circumstances becomes very difficult and informality, as the research of De Soto (1989) clearly shows, has a constraining influence on the possible growth of the business. The status of informality can prevent business owners from escaping from their poverty. Training should therefore enable business owners to choose to become formal if they wish to do so.

To summarise, an informal business was described as being characterised by at least two of the following features:

- smallness of size, measured by the extremely few, if any, paid employees;
- absence of officially recognised business premises (for example the business was being run from a private residence, backyard or street corner);
- lack of official registration of the business (the business had no licence or GST number for example);
- lack of any official records of the business (hence the earnings of the business were excluded from calculations of the GDP), and
- lack of easy access to resources in the formal sector such as finance and supplies.

These characteristics were used as the basis to select respondents to participate as informal business owners in this study and as the basis for testing other groups' perceptions of the informal sector.

1.4 THE APPROACH TAKEN TO THE STUDY

The approach taken to this study was that the training that is needed to encourage the development of the informal sector cannot be determined without taking the context in which such businesses operate, into account. The underlying assumption was that businesses do not operate in a vacuum. Socio-economic and political factors can and do influence the viability of the informal sector.

A model or framework was therefore developed by the researchers so that informal business owners and their businesses could be placed in the context of at least some of the socio-economic factors that can possibly have an influence on them.

The model is based on the analogy of creating a ripple in a stream of water and consists of a series of concentric circles, indicative of a ripple effect. The informal business owners place themselves in a stream of existing socio-economic and business activities. Each individual, by the act of placing himself or herself in the stream, causes a pattern to develop so that ever broadening circles of interest groups form round the business.

The ultimate aim is to enable the flow of mainstream business activities to accommodate informal businesses, even, if necessary, by changing the flow. But before this can be attempted, what constitutes the ripples needs to be understood.

Each socio-economic factor can be conceptualised as occupying a space in one or more of these concentric circles or ripples. Each circle, in turn, represents a different level of analysis, from the micro to the macro level, or from the individual to the global level.

1.4.1 The individual level

The innermost circle of Figure 1.2 represents the individual, who is the actual or potential small business owner in the informal sector. Each person has assets and limitations in terms of abilities, level of education, technical, business and interpersonal skills, language and communication skills, cultural background and attitudes. These variables influence the type of business that is established and the way in which it is run. This circle therefore represents the resources and constraints inherent in and imposed on the enterprise by the business owner, as part of his or her assimilated cultural background, aptitudes and personality.

Training can help to develop these inner resources and to decrease these inner constraints.

1.4.2 Resources available to the individual

The second circle represents the material, physical and financial resources and emotional support in the immediate environment available to the individual in order to be able to start up or to run a business successfully or to expand the business.

In the informal sector, which is characterised by relative ease of entrance, fewer material resources are generally needed, when compared to the formal sector. However, the viability of the business and the possibility of expansion often depends at least in part on access to these resources. Whether or not the individual has access to the following can therefore promote or hinder the development of the business of each individual.

- A family support system. The nuclear or the extended family of the business owner can influence the enterprise in at least two ways. On the one hand it can be a drain on the business. People within the family groups can draw money from it or they can have a negative attitude towards the business. On the other hand, the family can support the business, either emotionally through encouragement, or else through actual help by working in the business or through giving financial assistance.

- Other social networks that support the business. Friends and relatives too can support or hinder the development of the business through both their attitudes towards business and through concrete support, such as helping by working in the business or helping with finance.

- The methods of transport available to the business. If a business owner has to rely on public transport or taxis for the business, for example, the type of business he or she will be able to operate will be very different to the type of business that the owner of a motor vehicle will be able to run.

- The availability of raw materials, machinery and equipment. The type of machinery, tools and equipment that is available to the business will influence not only the quality of the products or services, but also the time that it takes to produce an article, or the actual quantity that can be produced.

- The type of premises available to the business.

- The employees, if any, and their skills.

Training can help the business owner to use the resources available to him in the immediate environment more effectively and to plan on finding ways to improve the availability and use of these resources. On the other hand, involving the people who form part of the network system available to the business owner in a training strategy, can promote better understanding, acceptance and support of informal businesses.

1.4.3 The community

Returning to the model shown in Figure 1.2, at the third level there is the community in which the business operates. This community can also have a determining influence on the way in which the business functions, the type of goods and services that it offers and whether or not it is successful.

Particularly in the informal sector, because of its hidden nature, the products or services that a business offers are more likely to be advertised by way of word of mouth through satisfied customers, rather than through other means such as the mass media.

The following components of the community in its interaction with the business may have an influence on the way in which it functions:

- The actual needs of the community. For example, the needs for goods and services of a poorer community may differ significantly from those of a wealthier community, directly influencing the types of businesses that are established in both the formal and the informal sectors.

- The markets available in the community for the service and / or product. For example if there are a large number of outlets in the community to obtain needed goods and services, then the customers' expectations regarding a specific business will differ compared to the expectations of customers when there are few, if any, other outlets in the vicinity. The markets include:

    - other competitors in the informal sector and
    - other competitors in the formal sector.

- The sources of finance available in the community, for example the existence of savings clubs and informal money lenders.

- The possibilities of co-operative buying and marketing. The extent to which informal business owners interact among themselves and the type of interaction influences the way in which their businesses operate. For example, if a co-operative buying organisation is formed so that goods and services can be obtained in large quantities from wholesalers, then a larger variety of goods can be sold at cheaper prices. If a group of manufacturers get together and form a co-operative for marketing their goods, for example, then different products may be made to those that can be sold individually.

- The systems of subcontracting. Here, the focus is on the extent to which formal and informal businesses interact with each other. If businesses in the formal sector give contracts to informal business owners to complete part of the work in the manufacturing process, for example labelling and packaging of goods, then the type of business ventures that are found in the informal sector will be affected.

- The perceptions of the community of business ventures generally and their predominant business values. For example, if the members of the community believe that the goods and services of the informal sector are unhygienic or are inferior to those found in the formal sector, then their support of this sector is likely to be minimal. If, on the other hand, they believe that by supporting this sector, they are helping the community to become wealthier, they are more likely to support it.

- The suppliers and their perceptions of informal businesses. If, for example, suppliers make it difficult for informal business owners to buy directly from them, then prices of goods in these ventures are likely to be high.

- The training facilities available in the community for small business development.

Training at this level can be directed both at informal business owners and at the community as a whole. Training is needed for business owners to enable them to cater for specific needs, demands and circumstances of their particular communities. On the other hand, information, advice and training are needed by the various interest groups that constitute a particular community. By involving these people in a training strategy for the informal sector, its acceptance is more likely to be assured.

1.4.4 The society

The fourth level of the model, as indicated in Figure 1.2, constitutes the broader society in which informal businesses function. This societal level, in turn, can be further subdivided into the environmental factors that affect enterprise development in the specific city or town where the informal businesses are found and those that affect the functioning of informal businesses in the country as a whole. The approach to informal business by both local authorities and state institutions is relevant here and so is the approach of smaller companies and large corporations. Both local and

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general societal aspects can have a profound influence on the way in which informal businesses function.

For the purpose of this study however, no attempt has been made to separate these levels of functioning, because, in practice, they are closely interwoven. For example, laws introduced to promote deregulation of informal businesses at national level have a direct impact on local authorities. Business decisions taken in support of the informal sector at the head office of a large corporation directly affect the branches.

The following are some relevant societal variables:

- Government policy towards informal business.
- The perceptions of government officials of the informal sector.
- The by-laws, rules and regulations of local authorities, as they apply to informal businesses.
- The attitudes of local authority officials towards the development of informal businesses.
- The present system of taxation and its effects on the informal sector.
- Large corporations, their share of the market and their approach to small business development.
- Employment opportunities within the formal sector.
- The infrastructure available for small business development in urban and rural regions.
- Banking systems generally and their approach to businesses in the informal sector.
- The business training policy in the country.
- The general demand for products or services that can be supplied by the informal sector.
- The tourist industry and its effect on the informal sector.
- The general level of education and training in the country.
- Attitudes of local development agencies towards the informal sector.

As far as training at this level is concerned, a three pronged approach may be needed. The business owner can be given training to enable him or her to function effectively and competitively in the broader society. Then, specific training for certain groups, such as municipal and banking officials may also be needed. In addition, a strategy to promote general awareness and an information service may be needed for the public. The aim is to encourage the development of a business oriented approach and an acceptance of entrepreneurship among the public.

1.4.5 The global level

The final level of the model is the global level. Here we see that there are numerous global influences which can affect the viability and functioning of informal businesses, although these influences are likely to be indirect. Trends in other countries regarding the acceptance of the informal sector can have a definite impact on the acceptance of this sector in this country. The attitudes of other countries towards South Africa can also have an influence on the need for and the size of the informal sector. The following aspects may need to be taken into account:

- The trading partners of South Africa,
- the main competitors,
- the import and export policy,
- trends in other countries regarding deregulation and privatisation,
- South African trade balances and deficits,
- the Gross Domestic Product of the country,
- the state of the global economy generally,
- attitudes towards South Africa, as reflected through sanctions and disinvestment policies and
- attitudes of international development agencies towards the development of the informal sector.

These global aspects have indirect training implications in that they may need to be taken into account in the formulation of any training strategy. The direct effects are however less obvious. The approach to the development of the informal sector in other countries will be taken into account in this project through a literature survey as discussed in Chapter 2.

1.5 RESEARCH METHODOLOGY

In this section, the establishment of a steering committee to oversee the research process; the interest groups from which respondents were drawn; the construction and testing of interview schedules; the selection of the respondents; the areas where the research took place and the training of the fieldworkers to enable them to conduct the required interviews will be discussed.

1.5.1 The steering committee

The National Training Board established a steering committee consisting of representatives of organisations in both the private and the public sectors to give guidance and direction to the research process. The names of the people sitting on the committee are indicated right at the beginning of the report. This committee met at regular intervals during the research process to discuss various matters related to the research such as the construction of the interview schedules, the way in which the fieldwork should be handled, the geographical areas from which respondents should be drawn, the results of the study and the analysis of the data.

1.5.2 The groups of respondents and the type of information obtained

Since the universe of informal business owners is not actually known and since a large amount of information was needed from diverse groups to be able to develop training guidelines, the research methodology used was essentially exploratory in nature. The information acquired was both extensive and intensive. In-depth interviews were held with seven groups of respondents as discussed below.

The framework outlined in Figure 1.2 was used as a guide to decide on

- which groups of respondents to include in the study and
- the type of questions to ask the respondents.

As far as the groups of respondents to be included in this study are concerned, it would obviously be impossible to conduct interviews with representatives of all the groups that actually were or potentially could interact with informal business owners, as indicated in the model. Instead, seven different groups of key actors were identified from whom relevant information could be obtained at each level of the model, excluding the global level which only has an indirect influence.

The type of questions that were posed to each group was also determined by the way in which the group could potentially contribute to or hinder the development of the informal sector. A broad indication of the type of information that was sought from each group is indicated in the discussion below. However more details of specific information obtained from each group will be discussed in the relevant chapters giving the results of the study.

(a) The business owners

The first and the most important group that this study focused on was the informal business owner him or herself. Questions were asked to determine those characteristics such as level of education, type of training that has been received, exposure to a business environment during childhood, and approach to and future plans for the business that each owner brings to the business. These factors influence the type of business that is established and the way in which it is run. By means of these questions, the innermost circle of the model indicated in Figure 1.2 was taken into account to determine training needs at this level.

In addition, questions were asked on the resources in the immediate environment available to the business owner. For example the areas of family help and participation in the business, sources of transport, sources of supplies, the type and quality of equipment and tools, sources of finance and the number of employees, if any, that were available to the business, were covered. These questions give some indication of training needs of the business owner to enable him or her to utilise the available resources in the immediate environment effectively. In this way, aspects of the second level of the model were covered.

As far as the community level is concerned, questions were posed to the business owners on their perceptions of the type of customers that support the business, the way in which the business is advertised and services such as deliveries and credit facilities offered to consumers. Questions were also posed on interactions with other similar businesses in the area and the way in which the community supports the business. In this way, the training needs of business owners at the third level of the model were covered.

At the fourth level of the model, questions were asked regarding the official recognition, if any, that the business enjoys and the knowledge of and use made by informal business owners of formal financial and training institutions and of formal suppliers such as wholesalers. In this way the training needs of business owners in relation to the broader society were taken into account.

(b) The customers

The second group of respondents consisted of those customers who were actually patronising informal businesses. The answers obtained from respondents in this group concerned reasons for supporting informal businesses and their perceptions of differences between formal and informal businesses. The customers form part of the third level of the model, given in Figure 1.2, namely the community level. Comparisons between the reasons for supporting the informal sector and what these businesses can actually offer the customer give a further indication of the specific training needs of these business owners. The customers, in turn, may need consumer advice and information to encourage them to use the services and products of informal enterprises.

(c) Formal business owners

The third group of respondents were small business owners in the formal sector who were running similar types of enterprises to those that were being run by the informal business owners in the same geographical areas where the informal businesses were situated. If this group were to be placed in the framework indicated in Figure 1.2, they would also form part of the community level. Questions were put to these respondents regarding their education and training, their business background and experiences which could then be compared with those of the informal business owners. Their approach to the informal sector and the extent to which they were using the products and services of, or the extent to which they were having dealings with informal businesses, were also probed.

The training needs here may again be twofold. Firstly, formal business owners may need to be made aware of the ways in which they can make use of goods and services of the informal sector. Secondly, informal business owners themselves may need training regarding the way in which they can have dealings with formal business owners.

(d) Suppliers

The fourth group of respondents were manufacturers, wholesalers and retailers who were actually supplying or who could potentially supply informal business owners with the goods and services that they need. This group straddles two levels in the model, namely the community level, where smaller neighbourhood businesses are at issue, and the societal level, where larger regional businesses such as wholesalers or branches of larger companies are relevant.

Questions put to this group included the extent to which informal businesses had access to their goods and services and the way in which they deal with these business owners.

The training implications here are that both types of businesses may need to know more about each other. Suppliers may need to be made aware that there is an extremely large group of potential customers who can make use of their goods and services for mutual benefit. However, the way in which business is conducted with informal business owners and the criteria used for granting credit to them, for example, may differ from usual business practices.

Informal business owners, in turn, may need training in the most effective ways of dealing with suppliers, of obtaining value for money and of obtaining credit, for example.

(e) Financiers

The fifth group of respondents were the actual or potential financiers of informal businesses. Included here were commercial banks, development organisations giving loans to small businesses, informal money lenders and people running various forms of savings clubs such as *"stokvels clubs"*.

This group straddles at least two and, for some organisations, three levels in the model, namely the community, societal and global levels. The community level is straddled both through informal arrangements of money lending and through the lending facilities of development agencies and branches of banks in the actual community, while the societal level is breached through lending arrangements of larger branches and the loan policy of head offices of both banks and development associations. Among the large commercial banks and development agencies, the global level is reached through their international contacts.

However, these global level effects were only indirectly related to the study, since the respondents from financial organisations were drawn from those employees or officials who had direct contact with the public, such as branch managers of banks, rather than policymakers. The aim was to find out the way in which those people who interact with informal business owners at grassroots level deal with requests from informal business owners who come to them for financial aid.

Questions put to this very diverse group aimed at examining their perceptions of informal businesses. They also aimed at determining whether or not they gave loans to these business owners and if so, the requirements and the criteria these business owners had to meet to obtain a business loan, the amount of interest that is charged and how the money owed is recovered.

Training needs are again twofold. Firstly, the business owner may need training to enable him or her to apply for a loan more effectively. Secondly, the financiers themselves may need training to enable them to develop new criteria for granting loans to informal businesses.

(f) Representatives of business organisations

The sixth group of respondents to be interviewed consisted of representatives of various types of business associations. These included associations catering specifically for informal business owners, such as hawkers associations as well as associations catering for the needs of formal business owners, such as chambers of business. These respondents therefore straddle both the community and the societal levels of the model. The aim here was to determine the criteria that have to be met to become a member and the type of services that are offered to members in the various types of associations. Attitudes towards informal businesses were also examined.

The training needs here are again twofold. Informal business owners may need to be made aware of the type of organisations they can join and the type of assistance these organisations can offer them. Representatives of business owners may in turn need to receive information and training to enable them to review their membership policies so that more organisations can actually cater for the needs of informal business owners and so that more links between informal and formal businesses can be established.

(g) Municipal officials

The last group of respondents to be interviewed were four different types of municipal officials namely those working in the health, the traffic, the licence and the town planning departments of specific municipalities. This group represents key actors at the societal level of the model. The approach of these officials to informal business owners and the way in which they enforce laws, by-laws and regulations can have a profound effect on the viability of the business. These respondents were therefore asked various questions to determine their attitude to informal business owners. They were also asked to describe the actions they would take if someone was found infringing various by-laws, such as handling foodstuffs in a way that may be considered unhygienic, polluting the environment and causing a traffic obstruction. Then they were asked what actions they would like to take.

The training needs here are again twofold. The informal business owners may need specific training, help and guidance to enable them to be aware of the consequences of infringements of by-laws, while the officials may need training to enable them to act as educators and trainers of these business owners and facilitators of small business development so that infringements of regulations can be avoided.

In view of the deregulation of legislation affecting informal businesses that is taking place at the present, training needs may change in the near future. In any case, training is a dynamic process, but basic training needs in areas such as health or safety standards are not likely to change.

These seven groups constituted the respondents for this study. There are, however, various other groups who could have been included in the study but one study on its own cannot possibly examine the training needs of all interest groups.

1.5.3 The interview schedules and the pilot studies

Seven different interview schedules or questionnaires were constructed for each of the seven different groups of respondents. This was done after aspects of the literature had been reviewed and discussions had been held with a variety of individuals in different organisations such as officials in municipalities, banks and development agencies and representatives of informal business associations as well as with some informal business owners themselves. Each questionnaire was tested out in a pilot study, which was conducted in Pretoria and Mamelodi. Respondents were found in each group to test out whether or not the questions could be answered and how long it took to complete each questionnaire. After modifying the questionnaires on the basis of problems identified during the pilot study, they were used in in-depth interviews, each interview being conducted on an individual basis by the fieldworker.

The time taken to conduct an interview varied according to the particular group of respondents. An interview with a business owner lasted at least an hour, while an interview with a customer lasted approximately 20 minutes.

1.5.4 Selection of respondents and geographical areas in which the study took place

Different techniques were used to obtain respondents in each interest group.

A snowball sampling technique was used to obtain a sample of informal business owners. The first respondent told the fieldworker about another business owner who in turn told him or her about someone else running an informal business. The fieldworkers were instructed to cover a diverse range of businesses, including hawking and trading, manufacturing, services and building and construction ventures.

The customers were obtained by interviewing people who were buying goods and services from the business owner being interviewed.

Formal business owners were obtained by seeking out small businesses of a similar nature to the ones that were run by the informal business owners who had already been interviewed. For example, a fruit and vegetable shop owner could be interviewed if the fieldworker had previously interviewed a hawker selling fruit and vegetables in the same area.

Suppliers were obtained by asking informal business owners to indicate from where they usually bought their supplies. They were also obtained by visiting the managers of large wholesalers or chain stores in the area where the informal business owners were found.

Managers of financial institutions were obtained by visiting branches of banks and development agencies in the area, after having obtained permission to do so from the relevant head office. Informal money lenders and administrators of savings clubs such as *"stokvels clubs"* were obtained by following leads given by the informal business owners.

As far as business association representatives are concerned, an address list of relevant associations was given to the fieldworkers in each area as a starting point. Then leads were followed up from the first interview, regarding other associations where someone else could be interviewed.

As far as municipal officials are concerned, each municipality selected relevant people to be interviewed after permission had been granted to do so.

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This complex procedure had to be followed in view of two considerations, namely the hidden nature of many of the businesses in the informal sector and the need to be able to relate the research findings to specific networks surrounding specific informal business owners.

Table 1.5 indicates the number of interviews that were conducted, according to each specific group of respondents and according to the population group of the interviewer. Wherever possible, interviews were conducted by people of the same population group speaking the same language as the respondent. However, in view of the way in which the respondents were selected, this was not always possible. For example the bank manager of a branch in a black residential area was not necessarily black; municipal officials in Indian residential areas were not necessarily of Indian origin; white bank managers in white residential areas could have spoken English, while the language of the informal business owner could have been Afrikaans. The population group of the respondent was not always taken into account as a variable, since for some groups of respondents such as municipal officials, bank managers or representatives of business associations, their population group had nothing to do with the policy of the organisation that they were carrying out although it could have influenced the way in which they interpreted the policy. Taking personality variables into account to this extent was however regarded as being beyond the scope of the study.

As far as geographical areas in which the study took place are concerned, the steering committee selected the five main metropolitan areas in the country namely the Johannesburg, Cape Town, Durban, Port Elizabeth and Bloemfontein metropolitan areas as the main focus of the study. They also selected eleven smaller cities or towns namely Nelspruit, Pietersburg and Witbank in the Transvaal, Newcastle and Ladysmith in Natal, Harrismith in the Orange Free State, and Queenstown, George, Upington, De Aar and King William's Town in the Cape Province, so that comparisons between larger and smaller centres could be made. Interviews were conducted with whites, blacks, coloureds and Indians in established residential and business areas. Blacks in newly established or *"squatter"* areas where people are living in informal housing were also interviewed.

1.5.5 The fieldwork and training the fieldworkers

The fieldwork was conducted by experienced fieldworkers employed by Markdata, a division within the Human Science Research Council responsible for collecting information for a variety of research projects using many different techniques, including in depth interviews, to do so.

Special training sessions were held with the fieldworkers and the fieldwork supervisors during which the purpose of the study was explained. The way to obtain a sample of respondents for each questionnaire was also explained. Then during these sessions, each question in each questionnaire was discussed and consensus on the meaning of each question was reached. The importance of establishing a good rapport with each respondent was stressed during training sessions.

In addition, each fieldworker was supplied with a manual explaining how each group of respondents should be obtained and how each question should be asked. Extensive practical training was therefore provided in conducting the interviews.

The fieldwork took place from April to June, 1990.

1.5.6 Coding, capturing and analysing the data

After the fieldwork was completed, the information gained from the questionnaires administered to each separate response group was coded and captured on computer. Categories were created for the responses to open ended questions in each questionnaire by means of a process of content analysis. The data once captured, was then further analysed, using appropriate statistical techniques, in consultation with the HSRC's statisticians.

1.5.7 Limitations of the methodology

In view of the exploratory nature of the study, generalizations should be treated with caution. In addition, the reader's attention is drawn to all tables where a *"total"* column of number of respondents and percentages is given. This is justified, because each total constitutes an entity or separate group. For example, informal business owners form an entity or separate group : Population group was not the only criterion for selection. Financiers form an entity or group : Type of financier was not the only selection criterion.

1.6 LAYOUT OF THE REST OF THE REPORT

In the following chapters, after giving an overview of the relevant literature, the actual findings will be presented and discussed. The research findings for each group of respondents will be presented in a separate chapter, but, wherever possible, findings will be related to each other. First, specific aims for each group of respondents will be formulated, then the results of the study for that particular group will be described, the training implications of these findings will be discussed and specific recommendations made.

TABLE 1.1

EMPLOYMENT OPPORTUNITIES ACCORDING TO INDUSTRY (in thousands)*

Industry	Year									
	1984		1985		1986		1987		1988	
	N	%	N	%	N	%	N	%	N	%
Agriculture, forestry and fishing	959	12,3	948	12,2	937	12,0	927	11,7	868	11,2
Mining and quarrying	815	10,4	833	10,7	870	11,2	877	11,1	756	9,7
Manufacturing	1 507	19,3	1 461	18,7	1 455	18,7	1 476	18,6	1 445	18,6
Electricity, gas and water supply	92	1,2	93	1,2	95	1,2	95	1,2	96	1,2
Building and construction	373	4,8	361	4,6	358	4,6	368	4,6	393	5,1
Trade, catering and accommodation	925	11,8	915	11,7	905	11,6	910	11,5	924	11,9
Transport, storage and communication	547	7,0	545	7,0	522	6,7	509	6,4	500	6,4
Finance, assurance, real estate and business services	380	4,8	396	5,1	397	5,1	399	5,0	405	5,2
Non government, community and personal services	156	2,0	162	2,1	166	2,1	170	2,1	163	2,1
Government services	1 190	15,2	1 198	15,4	1 197	15,4	1 313	16,6	1 350	17,4
Domestic services	877	11,2	878	11,3	877	11,3	878	11,1	878	11,3
TOTAL	7 821	100	7 790	100	7 779	100	7 922	100	7 778	100

*SOURCE: Central Statistical Service (1989):240-252

The figures include the "self governing territories" but exclude the Transkei, Bophuthatswana, Venda and the Ciskei.

TABLE 1.2

BUSINESS OWNERS IN THE INFORMAL SECTOR: OCCUPATION BY POPULATION GROUP AND SEX*

Occupation		Coloureds		Indians		Blacks		TOTAL	
		N	%	N	%	N	%	N	%
Trade and hawking	Male	13 988	24,8	8 249	32,3	336 301	28,6	358 538	28,5
	Female	8 933	27,9	3 975	31,1	465 978	45,3	478 886	44,6
	Subtotal	22 921	25,9	12 224	31,9	802 279	36,4	837 424	35,9
Services	Male	8 780	15,6	926	3,6	106 828	9,1	116 534	9,3
	Female	11 971	37,4	1 510	11,8	113 716	11,1	127 197	11,8
	Subtotal	20 751	23,5	2 436	6,4	220 544	10,0	243 731	10,5
Manufacturing	Male	24 641	43,7	12 845	50,3	385 952	32,8	423 438	33,7
	Female	472	1,5	954	7,5	45 615	4,4	47 041	4,4
	Subtotal	25 113	28,4	13 799	36,0	431 567	19,6	470 479	20,2
Home crafts	Male	1 359	2,4	285	1,1	30 643	2,6	32 287	2,6
	Female	8 539	26,7	5 169	40,4	268 935	26,1	282 643	26,3
	Subtotal	9 898	11,2	5 454	14,2	299 578	13,6	314 929	13,5
Transport	Male	1 954	3,5	1 274	5,0	85 194	7,2	88 422	7,0
	Female	279	0,9	0	0,0	3 340	0,3	3 619	0,3
	Subtotal	2 233	2,5	1 274	3,3	88 534	4,0	92 041	3,9
Scavenging	Male	3 554	6,3	115	0,5	113 297	9,6	116 966	9,3
	Female	0	0,0	0	0,0	44 324	4,3	44 324	4,1
	Subtotal	3 554	4,0	115	0,3	157 621	7,1	161 290	6,9
Accommodation	Male	201	0,4	230	0,9	9 268	0,8	9 699	0,8
	Female	859	2,7	631	4,9	7 536	0,7	9 026	0,8
	Subtotal	1 060	1,2	861	2,2	16 804	0,8	18 725	0,8
Other	Male	1 886	3,4	1 625	6,4	108 241	9,2	111 752	8,9
	Female	974	3,0	560	4,4	79 650	7,7	81 184	7,6
	Subtotal	2 860	3,2	2 185	5,7	187 891	8,5	192 936	8,3
TOTAL	Male	56 363	100	25 549	100	1 175 724	100	1 257 636	100
	Female	32 027	100	12 799	100	1 029 094	100	1 073 920	100
	Subtotal	88 390	100	38 348	100	2 204 818	100	2 331 556	100

*Excluding 395 277 persons in the employment of employers

Source: Statistical Newsletter PO315 Central Statistical Service.

TABLE 1.3

NET MONTHLY INCOME OF BUSINESS OWNERS IN THE INFORMAL SECTOR*

Rand	Coloured		Indian		Black		TOTAL	
	N	%	N	%	N	%	N	%
Less than 150	28 136	31,7	5 336	13,9	718 952	32,6	752 424	32,3
150 - 249	19 452	22,0	7 100	18,6	367 376	16,7	393 928	16,9
250 - 349	11 548	13,1	5 731	15,0	249 596	11,3	266 875	11,4
350 - 449	6 068	6,9	3 214	8,4	194 657	8,8	203 939	8,7
450 - 499	1 287	1,5	1 027	2,7	61 529	2,8	63 843	2,7
500 - 599	6 201	7,0	2 563	6,7	126 339	5,7	135 103	5,8
600 - 699	2 913	3,3	920	2,4	78 529	3,6	82 362	3,5
700 - 849	2 917	3,3	1 526	4,0	85 530	3,9	89 973	3,9
850 - 999	867	1,0	320	0,8	37 151	1,7	38 338	1,6
1 000 - 1 349	1 883	2,1	3 192	8,3	73 741	3,3	78 816	3,4
1 350 - 1 699	856	1,0	1 919	5,0	14 387	0,7	17 162	0,7
1 700 - 2 099	1 875	2,1	1 457	3,8	29 856	1,4	33 188	1,4
2 100 - 2 499	422	0,5	270	0,7	5 232	0,2	5 924	0,3
2 500 - 2 999	841	1,0	860	2,2	7 916	0,4	9 617	0,4
3 000 - 3 499	352	0,4	1 055	2,8	12 624	0,6	14 031	0,6
3 500 - 3 999	-	-	85	0,2	1 593	0,1	1 678	0,1
4 000 - 4 499	250	0,3	268	0,7	14 500	0,7	15 018	0,6
4 500 - 4 999	-	-	55	0,1	936	0,1	991	0,1
5 000 - 5 999	-	-	90	0,2	7 712	0,3	7 802	0,3
6 000 and more	595	0,8	469	1,2	36 251	1,6	37 415	1,6
Unspecified	1 827	2,1	888	2,3	80 412	3,6	83 127	3,6
TOTAL	88 390	100	38 345	100	2 204 819	100	2 331 554	100
Median	R233		R355		R256		R257	

*Excluding 395 277 persons in the employment of employers in the informal sector

Source: Statistical Newsletter PO315 Central Statistical Service.

TABLE 1.4

COMPARISON OF INFORMAL AND FORMAL SECTOR ACTIVITIES

	Informal sector		Formal sector
(a)	ease of entry	(a)	difficult entry
(b)	reliance on indigenous resources	(b)	frequent reliance on overseas resources
(c)	family ownership of enterprises	(c)	corporate ownership
(d)	small scale of operation	(d)	large scale of operation
(e)	labour intensive and adaptive technology	(e)	capital intensive and often imported technology
(f)	skills acquired outside the formal school system	(f)	formally acquired skills; often expatriate
(g)	unregulated and competitive markets	(g)	protected markets (through tariffs, quotas and trade licences)

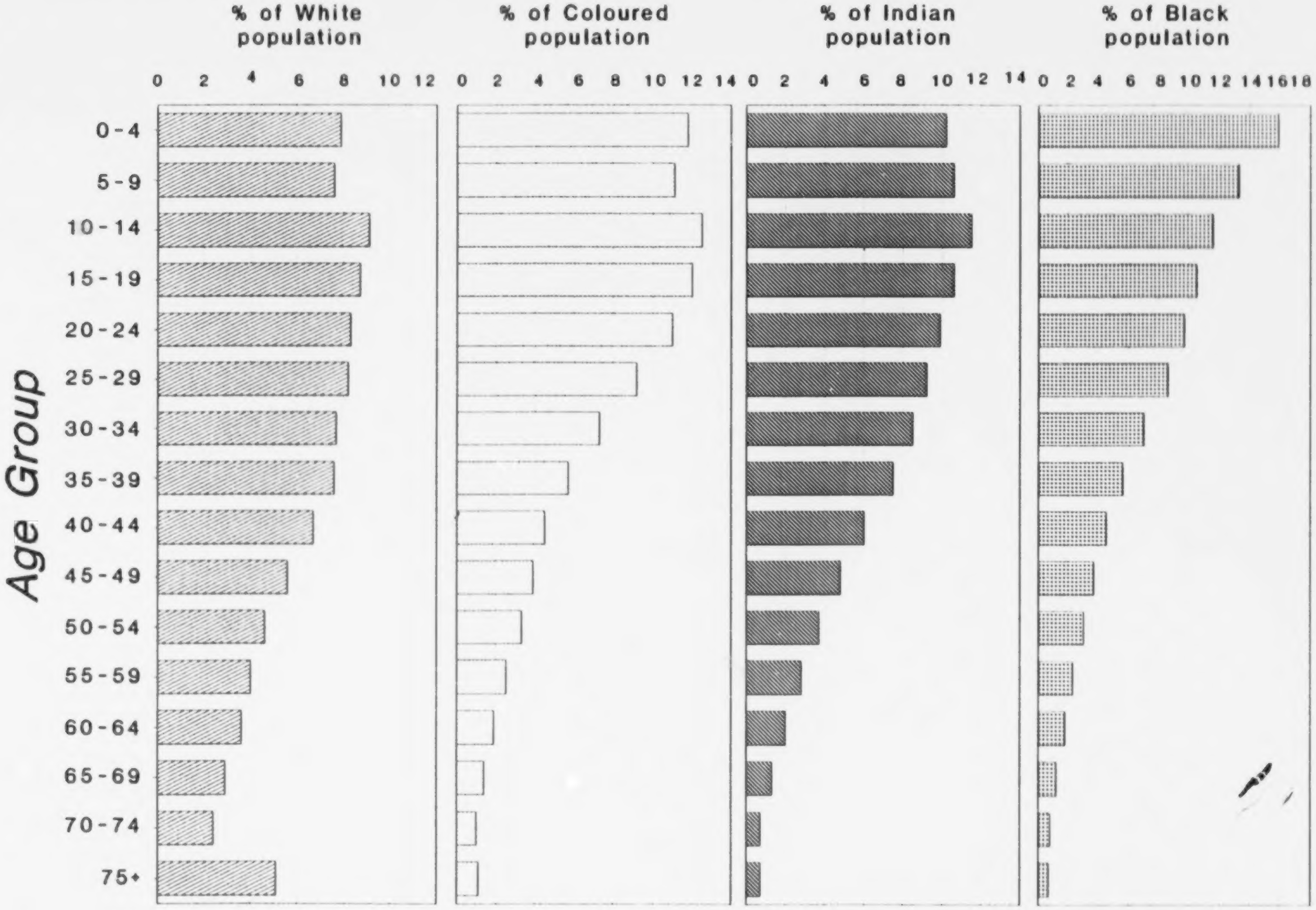
Source: Meier, 1976: 215.

TABLE 1.5

NUMBER OF INTERVIEWS THAT WERE CONDUCTED ACCORDING TO THE SPECIFIC GROUP OF RESPONDENTS AND POPULATION GROUP OF INTERVIEWER

Group of respondents	Population group of interviewer				
	Blacks	Coloureds	Indians	Whites	TOTAL
Informal business owners	376	151	154	85	766
Customers of informal businesses	267	45	44	36	392
Owners of similar formal businesses	74	13	8	10	105
Suppliers	42	11	13	9	75
Representatives of business associations	40	9	8	8	65
Financiers of businesses	113	20	22	16	171
Municipal officials	79	13	11	8	111
TOTAL	991	262	260	172	1 685

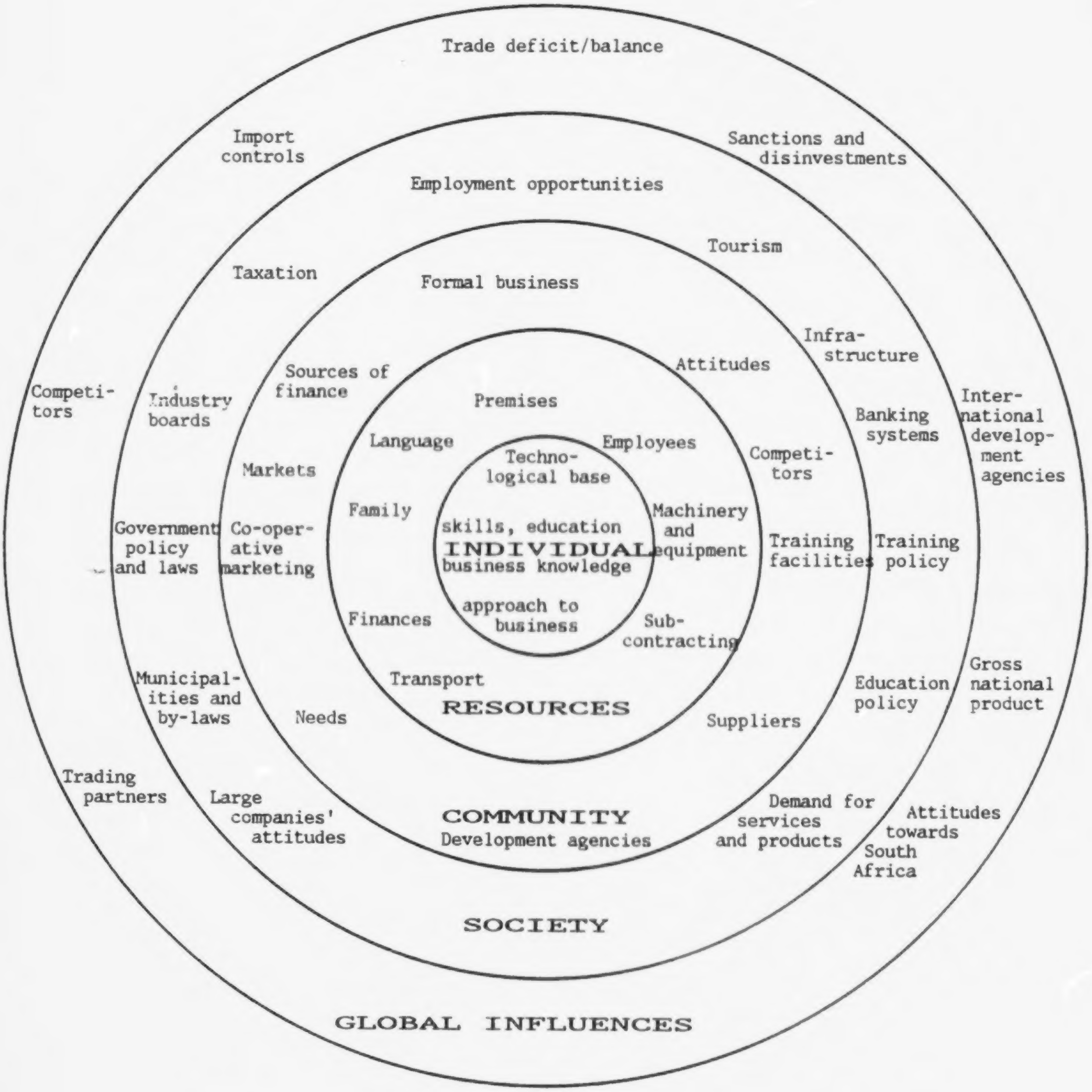
FIGURE 1.1
POPULATION DISTRIBUTION ACCORDING TO AGE



SOURCE: Central Statistical Service (1989)

FIGURE 1.2

INTEREST GROUPS IN THE INFORMAL SECTOR


Trade deficit/balance
Import controls
Sanctions and disinvestments
Employment opportunities
Tourism
Taxation
Formal business
Infra-structure
Sources of finance
Attitudes
Competi-tors
Industry boards
Premises
Banking systems
International development agencies
Language
Employees
Markets
Techno-logical base
Competi-tors
Family
Machinery and equipment
Government policy and laws
Co-oper-ative marketing
skills, education
INDIVIDUAL
business knowledge
Training facilities
Training policy
Finances
approach to business
Sub-contracting
Municipal-ities and by-laws
Transport
RESOURCES
Needs
Suppliers
Education policy
Gross national product
Trading partners
Large companies' attitudes
COMMUNITY
Development agencies
Demand for services and products
Attitudes towards South Africa
SOCIETY
GLOBAL INFLUENCES

CHAPTER 2

LITERATURE SURVEY

> *"Micro-enterprise provides a route to survival as well as self-respect."*
> (Harper 1989:187)

2.1 INTRODUCTION

The importance of the informal sector has been widely acknowledged in recent years (Levitsky 1989). Not only does this sector provide self-employment to those who cannot find work in the formal sector, but it also contributes to the development of entrepreneurial characteristics within a society. The innovative nature of businesses in this sector has generally been recognised. Informal business owners have found ingenious solutions related to surviving in a hostile environment by providing goods and services that are needed by other people in the society at affordable prices (Harper 1989). Many people manage to overcome their condition of impoverishment through their activities in the informal sector. On the other hand however, many do not. A large proportion of businesses in this sector have remained static, marginal and poor (Lisk 1983).

2.2 DEREGULATION AND THE INFORMAL SECTOR

One reason why so many informal businesses have remained static and marginal may be found in the extent to which existing legislation hampers their development and forces them to remain hidden. In Peru, De Soto (1989:231) noted that legal institutions are in crisis because of their *...loss of social relevance in the face of incursions of informality into all areas of everyday life."*

This author stated that a reform of the existing Peruvian legislation is needed to enable informal business owners to function more effectively in society. De Soto (1989) advocated that both deregulation and decentralisation should be introduced as a means of giving more economic power to the informal sector. But he went even further than this; he said that not only is there a need for unjust laws in Peru to be removed from the statute book, but that there is also a need for *"good laws"* to be introduced. Such laws will protect the rights of informal business owners and their customers to do business with each other. They will also protect the rights of third parties to these transactions. If laws that promote the functioning of the informal sector are introduced, then this sector can thrive. But such laws should be based on the existing realities of Peru, namely large scale migration to the

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cities, lack of formal employment opportunities and lack of housing. Laws should not, according to De Soto, try to shape reality.

In South Africa, at the present time, the need to base laws on the existing reality is being acknowledged. The authorities found that it was impossible to control migration to the cities through legislation and there has been large scale migration to urban areas in recent years. In the face of growing unemployment and a shrinking pool of employment opportunities that characterises the labour market of South Africa at present, the state has turned its attention to legislation governing small business development generally and the informal sector in particular. The ability of the informal sector to create employment, albeit self-employment that merely allows the people in this sector to survive, is being recognised. Decentralisation and deregulation are taking place in relation to the informal sector.

The Committee for Economic Affairs of the President's Council (1985:58-59) has found that the informal sector

- produces an income, although sometimes a very small one, for people who, in other circumstances, would not have access to an income.

- acts as a training ground to allow the individual to graduate to more productive employment in the formal sector.

- sells goods and services related to community needs.

This committee came to the conclusion that the whole question of deregulation needed to be examined in relation to the informal sector. Existing legislation imposes unnecessarily high standards on this sector which hampers its functioning.

Proposals were put forward for a strategy of deregulation in South Africa which would permit parts of the informal sector to be gradually integrated into the formal sector.

The *Temporary Removal of Restrictions on Economic Activities Act* was introduced in 1986, lifting certain restrictions and giving the State President powers to introduce promulgations to enable both the small business sector and the informal sector to function more effectively.

Since that time, and even before, the call for deregulation has grown loud and clear, particularly among the larger corporations and larger businesses in the formal private sector. With the inability of these businesses to create employment opportunities for the growing population of work seekers, the development of small businesses is now being actively encouraged by them.

Not only are the large corporations shareholders in the Small Business Development Corporation (SBDC; Annual report 1990), but they have also taken active steps to call for deregulation. In 1987, the Sunnyside Group was formed, after a meeting at the Sunnyside Park Hotel in Johannesburg, to act as a lobbying group to further encourage deregulation (Cooper *et al.* 1988). The Sunnyside Group consists of representatives of larger corporations as well as small business development agencies.

Again, in 1987, the Committee for Economic Affairs of the President's Council stressed that *"...an employment creation strategy that will meet South Africa's needs requires more than just the conventional stressing of extensive growth through industrialisation."* There is also an important role for the informal sector to play in the creation of employment and income opportunities.

In the meantime informal business owners themselves started pressing for deregulation. For example the African Council for Hawkers and Informal Business (ACHIB) in a meeting in December 1987 resolved to fight the authorities for harassing hawkers and confiscating their goods during normal operations in cities and townships (Cooper *et al.* 1988).

The *"galaxy of negative laws"* and *"cumbersome bureaucratic requirements"* had to be tackled (Cooper *et al.* 1990).

The *Draft Business Bill* of 1989 set out to repeal or to amend certain laws regarding the licencing and carrying on of businesses as well as shopping hours. In the terms of this bill, the trading activities for which licences are required are food, food handling and catering and places of entertainment and congregation. Existing licencing boards will be abolished (Cooper *et al.* 1990). Other business activities for which licences are required are however unaffected.

According to the annual report of the SBDC (1990:26), reform with regard to certain trade licences has meant that *"...for the majority of businesses, licencing is now a formality - merely a system of registration. At long last the first death knell has sounded for trade licences."*

Therefore in South Africa, certain actions have been taken or are in the process of being taken to deregulate legislation affecting the informal sector. As yet, no legislation to protect the rights of informal business owners, their employees and their customers, as suggested by De Soto (1989), has been introduced.

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2.3 THE VARIETY OF BUSINESSES IN THE INFORMAL SECTOR

One reason why it is difficult to introduce legislation to protect the rights of informal business owners and their customers lies in its diverse nature. In South Africa, as in other countries, the informal sector does not only consist of those who are trying to escape poverty. There are numerous activities such as prostitution, selling of stolen goods and trading in drugs which also form part of the informal sector, but which are criminal in nature. Obviously, a clear distinction has to be drawn between legitimate business activities and criminal ones. Giving legal rights to informal businesses would mean that the distinction between legitimate and criminal activities could more easily be drawn (Handy 1984:45).

There is also another group of informal business operators. These people are mainly white, but not exclusively so. They have the knowledge and access to legal requirements to enable them to run a business in the formal sector, but they choose to remain informal. Among some of these business owners, there is a desire to avoid paying tax (Mead 1989), whilst among others there is a desire to be free from institutional regulation (Portes *et al.* 1989). There are also other informal business owners who run informal businesses because it is more convenient to do so. For example child care needs can be accommodated when a woman runs an informal business from home. These types of businesses are likely to differ markedly from *"survival"* businesses. Portes *et al.* (1989) point out that the street seller in Latin America and a software consultant moonlighting in Silicon Valley (USA) both form part of the informal sector, but the type of businesses they run are completely different. There are obvious differences in the sophistication of the business operations and in the types of goods and services that are offered by both these types of businesses.

2.4 TRAINING FOR THE INFORMAL SECTOR

The focus of this research project is on training, and it is obvious that the training needs of those people in survival businesses are very different to those people in the more sophisticated ones (Ajimal 1987).

Harper (1989) points out that training for the informal sector can be classified into three different types of programmes, namely

- Type A programmes which aim to enable their participants to move from the informal to the formal sector.

- Type B programmes which aim to enable their participants to operate more effectively and profitably within the informal sector.

- Type C programmes which are directed at enabling disadvantaged groups to enter the informal sector. Refugees, new migrants to urban areas, the rural poor, disabled people and those who are dependent on charity form the target groups for this type of training.

(a) Type A programmes

Type A programmes include training in bookkeeping and accounting for better management of the business and to satisfy taxation authorities and credit institutions. Information about product and workplace standards, about employing others, about obtaining credit, about planning and marketing, is made available. In addition, training in the selection of modern equipment, introductions to formal market outlets and to suppliers and access to better premises are also sometimes provided.

It is important to note that at the present time, most training programmes in South Africa are directed towards the more sophisticated type of small business operations in either the formal or the informal sectors (Hirschowitz *et al.* 1989). Business owners taking these types of courses are often better educated and have had some contact with modern business practices.

(b) Type B programmes

The Type B training programmes that Harper (1989:183) discusses are *"...less common, less easy to design and less likely to succeed"*, because outsiders from the formal sector impose their values onto training courses without taking the ingenuity of the owners of informal businesses or the environment in which they function into account. An assistance programme of this type, according to Harper, should focus on finding better ways of using scrap materials, finding improved methods of managing working capital, finding more profitable locations and finding methods of identifying and satisfying customer needs.

In South Africa and in other developing countries (Mead 1989), this type of training programme is relatively difficult to implement. As a result, relatively little training is directed at business owners to enable them to run their businesses more efficiently within the informal sector, although some attempt along these lines have been made. For example, Wolmarans (1982) applies this type of training to those in rural cottage industries. The Small Business Advisory Bureau, in their information brochure, indicate that they do offer courses specifically directed at informal business owners to enable them to function more effectively and so does the Small Business Development Corporation. In relation to the numerous informal businesses that are being formed in the country at the present time however (see Chapter 1), the amount of training that is directed at informal businesses at this level is probably not making any significant impact. Mead (1989:10) stated that *"...the widespread low levels of literacy in*

Africa constitute a serious handicap to enterprise growth and development, both in terms of management abilities and in production skills for more complex products."

(c) Type C programmes

The final or Type C programmes which Harper (1989:184) discusses are designed to help people to enter into *"the world of micro enterprise"* as a last resort. This type of training is useful for those who cannot live off the land, for those who cannot find formal employment or who cannot start a business, even an informal one, using their own initiative. They lack the connections or skills or self-confidence to do so.

These programmes, according to Harper, usually succeed because they are based on a clear understanding of what is stopping the members of a particular group from starting and successfully maintaining their own enterprises.

At this level, training to acquire basic skills that may be needed in a work situation can be given. For example courses in basic sewing or carpentry or upholstery may be made available. Such courses should give rudimentary skills to enable the trainee to manufacture a specific type of product or to undertake specific types of repair work, or even simple building and construction work. Training in basic business principles can also be included here.

In South Africa at the present time, training to enable disadvantaged people to acquire basic skills is, in fact, available. Projects in rural areas run by non-government organisations, the basic skills training that is offered at the Regional Training Centres and training financed by the Department of Manpower for the unemployed and for workseekers (HSRC / NTB Investigation into skills training 1989) are examples of Type C training.

There is however a need to relate this training to the life circumstances of the people who receive it, to the markets available for the goods or services they are learning to produce and to the problems that trainees may encounter when trying to apply these skills to the specific sites or places from which the business will be run (Harper 1984). For example teaching someone to sew on an electric sewing machine, when that person has no electricity, would be a futile task. *"Good management is making the optimum use of available resources"* (Harper 1984:69).

Any training policy or training strategy for informal business owners who can benefit from Type B or Type C programmes cannot be seen as separate from other development issues. Training needs to be seen as forming an integral part of the development process among underprivileged communities. Nowak (1989) defined development as the conversion of unskilled people to skilled ones.

The problems faced by informal business owners are often similar to those of the developing communities from which they come.

2.5 A DEVELOPMENT PERSPECTIVE OF INFORMAL BUSINESSES

Development implies *"...much more than increased production or other forms of physical development"* (Laker 1980:98). Economic, sociological and cultural factors need to be taken into account.

- Physical development implies the availability of infrastructure such as roads, dams, housing, health care and sewerage.
- Economic development implies not only the growth of the economy of a country but also the availability of employment and the distribution of income within it.
- Sociological development includes issues related to the quality of life and the life-styles in the community.
- Cultural development implies recognising the importance of the traditions within the society and building on these traditions.

According to Laker (1980), development can be horizontal, which means supplying more of a needed commodity, for example supplying more roads, clinics and schools, while it can also be vertical, which means supplying better services or facilities. This approach is supported by UNESCO (1988).

If training for the informal sector is placed in a developmental context, then the state of regional, physical, economic, social and cultural development of the community needs to be taken into account. This state of development should influence decisions regarding whether horizontal or vertical or a combination of both types of training should be provided. For example, questions related to whether it is more important with a limited budget to provide better training to fewer entrepreneurs in the informal sector, or whether it is more important to train more people over shorter periods or perhaps a combination of both types of training, become relevant. Such decisions can however only be taken if the representatives of the people who are directly involved in the informal sector have been participants in the decision making processes regarding the training that is provided.

Different approaches have been taken to development over time. These approaches can have a direct impact, not only on the image of the informal sector but also on whether or not training has been made available to this sector and the type of training that is offered. For example, Van der Kooy (1979) and Todaro (1985) stress that at least four different approaches to development can be taken:

- A growth oriented approach, which stresses increased output, increased capital formation and mobilisation of savings and investment.

- An employment oriented approach which stresses not only economic growth, but also improvements of living conditions. Access to health, to education and training and to employment are stressed in this approach. By means of granting access to these facilities and services, living conditions should, according to this approach, improve.

- An antipoverty approach which stresses the need to transform social structures to enable people to obtain incomes above the poverty line. Redistribution is the issue here.

- A basic needs approach, which stresses the satisfaction of the essential requirements of a society. The emphasis is on the encouragement of output of basic needs and services. The indigenous population, its culture and values are the focal points.

Each orientation, on its own, may not be sufficient to enable any significant development of a developing society to take place. Instead, a multidimensional approach is needed. According to Lighthelm & van Wyk (1985:324), focusing solely on one aspect of development such as economic growth, is insufficient in a development programme. *"The fruits of economic growth do not automatically reach the poor groups."* Although economic growth may be a necessary condition, on its own it cannot achieve the aims of alleviating poverty.

The main problem facing development planners and those giving training to developing communities, is poverty and the main aims are to combat poverty, *"to raise the incomes and standards of living of the large masses of the poorest people, to accelerate growth and to strengthen economic and social programmes"* (Lighthelm & van Wyk 1985:331).

The most striking feature of poverty in South Africa, according to Wilson & Ramphele (1989) is the degree of inequality that exists. The Gini co-efficient, which measures the distribution of income within a society, was found to be the highest amongst 57 countries for which statistics were available, according to these authors. The urgent need for development in this country, including the development of the informal sector, is therefore patently clear. The informal sector has arisen as an indigenous, spontaneous solution to the question of poverty.

The importance of self-determination in development has frequently been recognised (Lighthelm & Coetzee 1984) and is achieved through participation in decision making processes. Development, not only government, is *"...for people, of people and by people"* (Lighthelm & Coetzee 1984).

In essence therefore, development means developing human resources within a community. This takes place through the progressive reduction of malnutrition, disease and illiteracy and creating opportunities for income generation. Unemployment is also tackled. In developing countries, *"...employment cannot be equated with the enjoyment of a full-time job under regulated conditions of work and pay"* (International Labour Organisation (ILO) 1984:1).

It is an activity, in these communities, which yields an income or gives a right to share in a collective income. Levels of poverty and unemployment are the end result of a host of economic and social relationships and political decisions. *"Employment creation and poverty alleviation are part of the whole process of ... development"* (ILO 1984:8). Although training for the informal sector is one way of developing a community, to alleviate poverty and to create employment within it, it is not the only way.

Development and training to create employment, including self-employment, cannot go against deep rooted social currents. The aim is self-reliance rather than parasitism (Van der Kooy 1979). The strengths of the indigenous society have to be identified in any training programme, and the need for and desire for training has to be recognised at grass roots level.

In summary, development, and by implication, training of the informal sector, needs to be based on

- a holistic approach, where the *"...wholeness of the human person, community, society and culture"* are recognised (UNESCO 1982:149).

- a human needs orientation, so that it meets the needs and aspirations of the people who will be affected by it.

- endogeneity, so that it grows from within the culture and is pursued within the context of that particular culture.

- participation in which the people themselves articulate the specifics of the situation, the needs to be met and the priorities to be set.

- self-management in which people are given choices and options and their scope for making decisions is broadened.

- self-reliance, where indigenous skills and resources are supplemented through appropriate technology.
- a community focus through which the needs, values, cultural identity and the right to self-determination are expressed.
- ecological soundness with respect to the environment in which the training and development takes place and the future generation's prospects.
- global responsibility (UNESCO 1982:140-152).

This orientation towards development is widely supported (Todaro 1985).

2.6 CONCLUSION

The decision to base the research to determine training needs of the informal sector on the model described in Chapter One, is therefore supported by this developmental perspective.

Training cannot be considered in isolation but needs to be seen as part of a total framework in which not only the individual, but also the community and the broader society and even global influences, are taken into account.

An important area for further research, in addition to the research covered in this project, is the identification of all training organisations giving training that is relevant to the development of the informal sector. Both technical training to make a specific product or to offer a certain type of service, for example carpentry or panelbeating, and other training, for example entrepreneurship, business training and school programmes encouraging business concepts, would need to be taken into account.

CHAPTER 3

INFORMAL BUSINESS OWNERS AND THEIR APPROACH TO BUSINESS

3.1 INTRODUCTION

The type of training that is needed to encourage the development of the informal sector can, at least in part, be determined by examining how the people that constitute it start and run their businesses and the problems they experience in doing so. However, trying to determine the training needs of this sector by looking at it solely through the eyes of the informal business owners themselves would be very limiting. The circumstances that encourage people to start or to run an informal rather than a formal business, may be so constraining as to prevent them from perceiving some of their training needs.

Training, as an enabling process, should open the way to increasing people's choices and enhancing their decision-making powers. Various perspectives need to be taken into account. As indicated in Chapter One, the points of view of other people interacting with the informal sector business owners will be taken into account in later chapters, but in this chapter the focus is on the informal business owner and his or her approach to business.

3.2 AIMS OF THE STUDY SPECIFICALLY APPLIED TO INFORMAL BUSINESS OWNERS

This part of the study therefore aimed:

- To give a biographical description of a group of informal business owners, based on extensive, in-depth interviews.
- To give a description of the type of businesses they run.
- To explain the way in which they started the business.
- To determine how they financed it when they started out.
- To examine how they actually run their businesses.
- To look at the resources available to them which facilitate or limit their ability to run the business.
- To study how they obtain their customers and their perceptions of customers' needs.
- To examine their perceptions regarding the way in which the community supports their businesses.
- To explore the ways in which they obtain the information, advice and training that they feel they need to develop the business.
- To identify the entrepreneurial characteristics of the informal business owners.
- To explore their future plans for these businesses.

- On the basis of all this information, to determine the type of training that is needed to enable the informal sector to flourish.

3.3 BIOGRAPHICAL CHARACTERISTICS OF THE INFORMAL BUSINESS OWNERS

A biographical description of informal business owners includes, among other factors, an examination of their age range, educational background and home languages. It also includes an examination of their childhood experiences in relation to business and their previous work experience. Training takes place against this background and these experiences.

3.3.1 Biographical description of the respondents

As indicated in Chapter 1, 766 interviews were conducted with informal business owners in 16 different geographical areas. (The distribution of respondents is shown in Table 3.1: All tables and figures for this Chapter will be placed at the end of the chapter to allow for easier reading of the text.) More interviews were held with respondents in the larger metropolitan areas than in smaller centres and more blacks were interviewed than members of other population groups. Black informal business owners are more likely to have been affected by unemployment and they are more likely to have moved from impoverished rural areas to metropolitan areas in search of better life opportunities than the other respondents.

The sample (Table 3.2) consisted of almost equal numbers of males (49 %) and females (51 %) of all age groups including a large number (21 %) of people aged 29 years or younger. The youngest person in the sample was 18 years of age, whilst the oldest was 83. As far as home language is concerned, the diversity of languages spoken in South Africa (excluding *"European"* languages) was reflected in the sample. The level of education that the respondents had attained directly reflects the differential access to educational opportunities of the different population groups in the country. Almost all the white respondents (80 %) were matriculated, whilst among respondents in the other population groups, relatively few (10 % of blacks, 17 % of coloureds and 25 % of Indians) were matriculated; and as many as 41 % of the blacks, 24 % of coloureds and 13 % of the Indians had received a minimum education, if any, reaching a level of Standard 5 or lower, while no whites had such low educational qualifications. This educational disadvantage for certain population groups has implications regarding the level at which training can be presented and the content of the courses.

As far as other education and training in addition to, or instead of schooling is concerned, again more whites (79 %) than members of other population groups (29 % of blacks and 38 % of both coloureds and Indians) had received training. A wide variety of fields, including university degrees, nursing, teaching, computer programming, artisan apprenticeships, secretarial and bookkeeping courses and training to acquire manual skills such as bricklaying and pottery making, had been covered by this training.

A CHAID analysis (Figure 3.1), which is a statistical technique in which a dependent variable, in this case whether or not the respondent had received any other training outside of schooling, is explained by the contribution made to it by a number of independent or explanatory variables, was used to further explore the data. This analysis clearly showed that population group was the best predictor of whether or not a respondent had received any education or training outside of schooling. Among the black, coloured and Indian respondents, the type of business they were running was directly related to whether or not they had received training. Those running personal services, building and manufacturing businesses were more likely to have received training than those in other types of businesses. Among the black respondents in repair services and entertainment businesses, the higher their income, the more likely they were to have received some form of training.

3.3.2 The childhood of the respondents

An examination of the respondents' childhood will indicate whether or not they had been exposed to a business environment and whether or not they had learned anything about running a business during this time.

It is relevant to note (Table 3.3) that both black and white informal business owners were more likely to have been raised in a rural environment (farm: 22 % of blacks and 26 % of whites; village: 24 % of blacks and 22 % of whites), whilst the coloured and Indian respondents were more likely to have been raised in an urban environment (town: 30 % of coloureds and 31 % of Indians; city: 44 % of coloureds and 58 % of Indians). Not surprisingly, the Indian respondents, rather than those in other population groups, were likely to have had at least some exposure to a business environment during childhood. Amongst all the respondents who had been exposed to a business environment in childhood (N = 269 or 36 %), this exposure was likely to have taken the following forms:

- Working part-time, over week ends or during school holidays in a business (11 %).
- Having someone the respondent lived with, being involved in selling activities (10 %).
- Having helped to manufacture products for a business, e.g. dresses (4 %).
- Having helped a family member, friend or relative run a formal business (4 %).
- Having helped a family member, friend or relative run an informal business (3 %).
- Keeping financial records for family members, friends or relatives (2 %).
- Having actually started a business during childhood (2 %).

Regarding the adults with whom the respondents had lived as children, the majority of white (72 %), coloured (74 %) and Indian (88 %) respondents had lived with both their parents. Among the black respondents however, less than half (40 %) had lived with both parents. Many had lived with only one parent, or else with grandparents, older siblings or relatives. Both their rural background and having lived within the extended family probably meant that the black informal business owners were less likely to have been exposed to modern business practices than those in other population groups, thus pointing to different training approaches that may be needed.

The actual work done by the adults with whom the respondents had lived during their childhood varied considerably from that of unskilled farm labourer and domestic servant to that of manager, teacher and minister of religion. Most of these adults were however working in unskilled or in semi-skilled jobs and relatively few (6 %) had their own businesses.

The picture emerging thus far is one of an informal business owner who enters the informal sector with relatively little knowledge of or previous exposure to a business environment. However, previous work experience also needs to be taken into account.

3.3.3 Previous work experience

Two thirds of the informal business owners had in fact had previous work experience before starting their present business (Table 3.4). This type of work experience could have been of two different types, namely self-employment in a previous business or else working for someone else.

As far as self-employment in a previous business is concerned, relatively few respondents (N = 92 or 12 %) had gained this type of experience. A wide variety of activities had however been undertaken by those who had previously owned a business, including trading, manufacturing, building and construction and offering various services. A quarter of these businesses (N = 23 or 25 %) had been discontinued because the respondent had failed to make sufficient money to cover expenses. The need for training in financial management of a business is thus evident. Personal and family reasons (husband being transferred, giving birth to a child) accounted for another 20 % (N = 18) of respondents who had abandoned previous businesses. Other reasons for giving up previous businesses included the burning of them during unrest situations, lack of enjoyment of the work and deciding to try something else as a challenge. Relatively few respondents (N = 7 or 8 %) who had previously been in business and had left it were in the same line of business in their new undertaking at the time of the study.

As far as working for an employer is concerned (Table 3.4), it is relevant to note that a large group of black (40 %) and Indian respondents (43 %) had not done so; the blacks because of a lack of work related skills and the Indians (who were mainly women) because of cultural factors preventing women from working in the formal sector for an employer.

Among those respondents who had actually previously worked for an employer (Table 3.4b), the number of years of work experience varied considerably from less than a year to 55 years, with approximately 20 % of these respondents having worked for an employer for three years or less and a further 20 % having done so for 20 years or more. This type of work covered a wide range of activities (Table 3.5a). The most frequently mentioned type of work was of a technical or artisan nature (14 %), while a relatively large group (9 %) were engaged in bookkeeping and clerical work as well as in domestic work, farming and gardening (8 %), unskilled labour (6 %) and selling and shop assistance (5 %). Much of this work could have allowed the respondent to acquire skills enabling them to enter a certain type of business, for example manufacturing or repairs, while bookkeeping and selling experience could have prepared some respondents to run a business.

The reasons why informal business owners had left their main source of previous employment (Table 3.5b) differed according to population group. Among black and coloured respondents, too little pay and unfavourable economic conditions resulting in retrenchments and businesses closing down were the main reasons given for leaving previous employment. Amongst the white respondents, family considerations were most frequently mentioned, whilst amongst the coloured respondents, the desire to start a business of one's own was frequently mentioned. These differences for leaving one's job have training implications. The business owner may have started his or her own business in order to survive or else as a result of a desire to express an entrepreneurial flair.

3.4 DESCRIPTION OF THE INFORMAL BUSINESSES

In this section the following will be discussed:

- The types of businesses the respondents were running.
- The sites from which these businesses were being run.
- The number of owners of each business.
- The amount of profit generated by the business.
- Whether or not the business was the sole source of income for the business owner and his or her family.

3.4.1 Types of business, types of sites and number of business owners

As is to be expected, a wide range of different types of businesses were being run by informal business owners (Table 3.6a). Amongst the black respondents, trading activities, which include hawking, street vending and selling from *"spaza"* shops were the most frequently encountered activities involving almost half (46 %) of the sample. Amongst the white respondents, a relatively large group (28 %) were engaged in manufacturing activities, whilst amongst the coloured respondents both trading (29 %) and manufacturing (25 %) were frequently mentioned. The Indian respondents were likely to be involved in trading (22 %), manufacturing (23 %) and repair (23 %) activities. The various types of informal activities found in this study are similar to the ones found by the Central Statistical Service (CSS) survey (1990b) cited in Chapter 1.

As far as site of the business is concerned (Table 3.6b), a large number of businesses were being run from inside the respondents' residences (48 %) and from their back yards (including huts and shacks on their properties) (19 %). A quarter of the businesses were being run from outdoor sites such as street corners and flea markets. Relatively few businesses (6 %) were being run from semi-formal business sites such as mobile shops, premises in rented rooms and in *"hives of industry"* run by development organisations.

In spite of not having formally recognised business premises, more than half of the respondents (65 %) were satisfied with their sites (Table 3.6c). The black respondents (50 %) were less likely to be satisfied than the others. The reasons for being satisfied (Table 3.7) included the convenience of working from home, the good situation of the business for attracting customers and the fact that customers support the business. Reasons for being dissatisfied focused on the small size of the premises, not having access to better premises and being exposed to inclement weather conditions.

Regarding the number of business owners (Table 3.6d), almost all the respondents (91 %) were the sole owners of their business.

These findings indicate the limitations of informal businesses in terms of their hidden nature, their smallness of size and their limited scope for expansion. Training should enable the business owner to escape these constraints by moving into the formal sector, if the person chooses to do so.

3.4.2 Financial contributions of the informal sector

This smallness of size of informal businesses is reflected in the net profit per month the respondents said they earned (Table 3.8a). A fifth of the respondents earned a net profit of R 100 per month or less (20 %), and an almost equally large number obtained a profit of between R 101 and R 270 per month (18 %). Overall relatively few respondents (28 %) earned more profit than R 550 per month. The majority of businesses in this study could therefore be classified as survival businesses. This applied particularly to businesses being run by black owners (28 % generated a net profit of R 100 or less and 23 % generated one of between R 101 and R 270 per month).

However, not all informal businesses were the sole source of income for their owners or their families (Table 3.8b). The white respondents in particular were less likely to rely on the business as their sole source of income as only 29 % of these respondents did so. On the other hand most (70 %) of the black respondents said that the income earned from the business was the sole source of income for themselves and their families, while just over half (54 %) of the coloured respondents and just under half (44 %) of the Indian respondents said that the business was their sole source of income.

Other sources of income (Table 3.8c) included the respondent having another job, husband, wives and family members having other jobs and the respondent receiving a pension or a disability grant.

In spite of the low net profit of informal businesses, most of the ones that were the sole source of income were supporting more than two people (Table 3.8d). In some cases (27 % of black respondents where the business was the sole source of income) these businesses were supporting 9 or more people.

The close link between biographical variables and whether or not the business is the sole source of income is illustrated in a further CHAID analysis (Figure 3.2). Businesses run from indoors at a private residence are less likely to be the sole source of income than those that are run from other sites. The group area in which the business was found influenced whether or not those businesses being run from inside a residence were the sole source of income. In black *"squatter"* areas, all businesses being run from private residences were the sole source of income for the family, where as among whites, coloureds and Indians, relatively few of these businesses were the sole source of income.

Among those businesses run from other sites, the level of education of the respondents influenced whether or not the business was the sole source of income. The lower the level of education of the owner, the more likely the business was to be the sole source of income for the family.

Training and upliftment go hand in hand and it is obvious that the people most in need of training are those with poor education living in squatter areas.

3.4.3 Additional human resources available to the business

The ability of informal businesses to create employment for others is an important consideration. Thriving businesses require additional workers, as it becomes more and more difficult for one person to do everything in the business. There are two main sources from which informal business owners can obtain additional workers, namely by hiring paid employees or by using the labour of family members.

In the present sample (Table 3.9a) just over a quarter of the businesses (28 %) had paid employees working in them. The white respondents (48 %) were more likely to employ paid workers than respondents in other population groups. Amongst those who had paid employees (Table 3.9b), almost two thirds employed one or two people. Thus relatively little paid employment was being created through the informal business owner taking on paid employees. Rather, as previous studies have shown (Dewar 1987), employment is created through replication of businesses. Informal business owners very rarely send their staff for formal training to outside organisations since only two respondents said that they had actually done so.

As far as family involvement in the business is concerned (Table 3.9c), relatively few respondents (28 %) said that members of the family were actually working in the business. Amongst those that had family members working in the business, wives, husbands, children, parents, brothers and sisters and even grandparents were all involved. The main types of work done were selling and serving customers, helping with the production of goods (for example, dressmaking), helping with transport and deliveries and helping with the service being offered (for example, hairdressing).

In addition to direct help, some respondents (N = 68) could rely on family members to help them financially, if necessary.

This family support network indicates that not only the business owners may need training, but also other members of the family. Future development of business skills in the community can be encouraged through ensuring that family support networks are efficient and effective.

3.5 STARTING AN INFORMAL BUSINESS

3.5.1 Reasons for starting a business

Three main groups of reasons for starting a business could be identified (Table 3.10).

- The first group of reasons centred on escaping poverty in the present harsh economic climate (13 %) and looking for, but being unable, to find other work (15 %). These are essentially *"survival"* reasons for starting a business.

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- The second group of reasons centred on entrepreneurship. The desire to earn more money (21 %), to be independent (15 %), to take an interest in business (9 %) and the dislike of working for someone else (3 %) were classified into this group.

- The third group of reasons were family or individual reasons and included the desire to supplement the family income (8 %), to avoid the boredom of the role of housewife (8 %), to take family circumstances (for example having young children) into account (3 %) and the need to face old age, disability and illness (2 %).

These diverse reasons indicate that different training is needed for respondents representing each of these groups. The survivor has different training needs from the entrepreneur who in turn has different training needs from the person entering the business as a diversion to avoid boredom.

A CHAID analysis (Figure 3.3) indicates that the reasons for starting a business relate directly to whether or not the business was the sole source of income. Among those who started a business because they could not find other work, the business was highly likely to be the sole source of income, whilst amongst those respondents who started a business to avoid boredom, it was highly unlikely that the business would be the sole source of income.

3.5.2 Determining the need for the product or service

When starting the business, more than half the respondents (57 %) actually determined the need for the product or service, rather than doing an activity which they knew how to do, hoping that people would need it.

The close relationship between the biographical variables describing the life circumstances of the informal business owner and his or her approach to business is again clearly evident in a further CHAID analysis (Figure 3.4). Here the dependent variable was whether or not the respondent had actually determined the need for the product or service before starting the business. The sex of the respondent was the most important predictor of whether or not this need had been determined. Males were more likely than females to have done so. Among the females however, those engaged in businesses that offer a service were more likely to have done so than those involved in other types of businesses. A further CHAID (not given in this report) indicated that the higher the net profit of the business, the more likely the respondent was to have explored the need for the product or service beforehand.

Training courses should include methods for exploring the need for the product or service among potential customers, since having determined the need for the product or service enhances the chance of earning more money.

3.5.3 The ways in which the respondents learned to perform the tasks that constitute the business

Two further issues are relevant to the ways in which the respondents started their businesses, namely how they learned to perform the service or to make the product on which the business is based and how they learned to run a business.

Relatively few respondents (Table 3.11a) learned to perform the service or to make the product on which the business is based through attending training courses (21 %) or through formal education (2 %). Most of this learning had taken place through experience or through contact with a previous employer, a friend, a relative or a spouse. Even fewer respondents had learned to run a business (Table 3.11b) through education or training (7 %). Life experience was the most important way of learning to run a business (58 %). In other words, the majority of people in the informal sector learned to run a business through trial and error.

Training can help people to avoid some of the mistakes which are inherent in a trial and error process. But it should not be seen as a substitute for life experience. It should rather be seen as a way of building onto and supplementing this experience. Ways of offering informal business owners individualised training, based on their own specific types of business and their own life circumstances need to be found.

3.6 FINANCING THE BUSINESS

The ways in which the business owners financed their businesses when they started them are directly related to the type of goods and services they can offer, the quality of tools and equipment that they can buy and the quantities of stock that they can keep.

When asked how they financed their business when they first started it, more than half of the respondents in this study (56 %) (Table 3.12a) indicated that they had done so through using personal savings or through other sources of their own money. Almost a fifth (19 %) obtained or borrowed money from family members, relatives and friends, while very few (6 %) borrowed money from a formal organisation such as a bank or a development agency.

When asked directly whether or not they had borrowed money from anyone to start the business (Table 3.12b), only 16 % of all respondents said that they had. By far the majority of these respondents (N = 90 or 73 %) had borrowed money from a family member, relative or friend, while 17 (14 %) of those who had borrowed money had done so from a bank and only 2 respondents had borrowed money from a development agency such as the Small Business Development Corporation.

In spite of relatively few people actually borrowing money for the business from banks, a relatively large group of respondents (43 %) actually had a bank account (Table 3.12c). The coloured and Indian respondents were least likely to have bank accounts, while the white respondents were most likely to have them.

It is ironic that informal business owners are depositing money into banks, but the banks are not re-investing money into the informal sector. The difficulties that informal business owners experience in obtaining a bank loan will become clearer in a later chapter.

The popularity of indigenous savings schemes such as stokvels schemes (Lukhele 1990) will also be made clearer in a later chapter. Training for informal sector business owners should familiarise them with the procedures and requirements to obtain loans from the formal sector. But at the same time indigenous solutions should not be ignored. Co-operative ways of saving through saving clubs should also be encouraged.

3.7 RUNNING THE BUSINESS

Among other activities, running the business entails keeping count of financial transactions and keeping count of stock.

3.7.1 Keeping count of financial transactions

Keeping count of financial transactions involves, among other activities, counting cash on a regular basis (for example at the beginning and end of each day), keeping written records, working out whether the business is running at a profit or loss and drawing up an annual budget (Table 3.13). Two thirds (67 %) of the respondents said that they counted cash on a regular basis, but just under half (49 %) said that they kept written records. Amongst those that kept written records, the business owner him or herself, rather than a family member or a paid employee, was likely to do so. When working out whether the business is running at a profit or a loss, both recognised accounting methods and idiosyncratic methods, for example *"seeing what is left over to buy food"*, are used. These calculations were done with varying frequencies, the most popular being fortnightly to monthly (29 %) or else weekly (24 %). Relatively few respondents (18 %) worked out an annual budget for the business.

A series of CHAID analyses were run using the counting of cash, keeping written records, working out profit or loss and drawing up an annual budget as dependent variables. (Figures based on these CHAIDS are not given in this report.) The following relationships were found.

- The type of business that the respondent was running influenced whether or not he or she counted cash on a regular basis. People in trading and in transport businesses were most likely to count cash regularly, whilst those in manufacturing, building and construction were least likely to do so. Black respondents were most likely to count cash regularly.

- Regarding keeping written records, males were more likely to do so than females. Amongst the males, if the family was involved in the business, they were even more likely to keep written records, whilst among the females, those who had taken the business over from someone else were more likely to keep written records than those who had started the business themselves. Net profit was another significant predictor of keeping written records. The higher the net profit, the more likely the respondents were to keep written records. Amongst those who indicated low net profits, the lower the level of education, the less likely the respondent was to keep written records.

- When looking at whether or not the respondent worked out if the business was running at a profit or a loss, the reasons for entering the business were the most important determinants of this type of calculation. Those who went into the business as a method of survival or to avoid boredom were less likely to work out whether the business was running at a profit or a loss than those who went into it for the profit motive or because they wanted independence. The white respondents were most likely to work out whether or not the business was running at a profit or a loss. Amongst black and coloured informal business owners, the lower the level of education, the less likely they were to work out whether or not the business was running at a profit or a loss. Among Indian respondents, the higher their net profit, the more likely they were to have calculated it.

- Regarding drawing up an annual budget, if family members were involved in the business, then the business owner was more likely to do so. If there was no family involvement, the males were more likely than the females to draw up an annual budget. Among the black respondents, the higher the level of education the more likely they were to draw up an annual budget. Among the whites, coloureds and Indians, the larger the net profit the more likely they were to draw up an annual budget.

The close link between biographical variables and the way in which the business is run, is again clearly evident. As far as training is concerned, it is becoming increasingly evident that certain variables, namely population group, level of education, type of business, family involvement in the business and reasons for entering the business have to be taken into account.

3.7.2 Keeping control of stock

The most frequently mentioned method of keeping control of stock (Table 3.14) was actually counting it on a regular basis (31 %) rather than through keeping written records (16 %).

3.7.3 Training implications

On the surface, it seems obvious that informal business owners need training to acquire bookkeeping and record keeping skills. However, this assumption needs careful questioning, if the circumstances of the business owners are considered. It is difficult to implement this type of training particularly if the low level of education of many of the respondents is taken into account. Keeping accurate records of the business does not automatically mean that the business owner will be able to manage the business better. All that it does is to enable him or her to know how well or how poorly the business is doing (Harper 1984). If the business grows and develops, then professional people can always be employed to keep written records. It seems as if the idiosyncratic methods that people have devised for keeping count of money and stock actually work well, particularly in survival businesses. Basically the type of training that is offered needs to be related to what the trainer hopes to achieve (Clark *et al.* 1990). If the aim of training is to create more employment through encouraging the development of the informal sector, then teaching trainees accounting skills will not meet this aim. If the aim of training is to obtain a better understanding of how well the business is functioning, then this type of training to keep written records may well succeed. However, it will not necessarily lead to growth of the business or to more innovative products or services.

3.8 RESOURCES AVAILABLE TO INFORMAL BUSINESS OWNERS

In this section, the availability of the following resources to informal business owners will be discussed:

- Capital goods, equipment and tools;
- supplies;
- transport.

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3.8.1 Availability of capital goods, equipment and tools

The respondents indicated (Table 3.15a) that they needed a wide variety of capital goods, tools and equipment to allow them to operate their different types of businesses effectively. Many of these items are relatively expensive. In spite of this expense, the majority of respondents had access to the most important items that they said that they needed. The need for a site or a shelter, for transport for the business and for tables, chairs and other furniture for entertainment businesses was less likely to be met than the need for other capital goods and equipment. Overall, the black respondents (Table 3.15b) were less likely to say that they had access to the capital goods that they needed than respondents in other population groups. The majority (56 %) of respondents were satisfied with their access to capital goods, equipment and tools (Table 3.16a). However, reasons for being satisfied or dissatisfied mentioned by the respondents (Table 3.16b) indicate that many respondents are trying to use old or outdated equipment and tools, which means that they are producing poorer quality goods and that they are working slowly to do so. The lack of electricity means that power tools and machinery cannot be used by some respondents. Limitations are therefore imposed on certain businesses by having inadequate tools and equipment.

Training courses can include information on the best ways of buying equipment and tools, taking cost and performance into account. Savings, loan and credit schemes can also be examined in training sessions. An important consideration for training is co-operative buying and sharing of equipment and tools. Co-operative groups or joint ventures are already developing around informal sector businesses (Jaffee 1988), based on the tradition found in African societies of people helping one another (Lukhele 1990). Members of these co-operative schemes experience many problems regarding sharing equipment, but they also allow more people to gain access to equipment and tools, which they would not otherwise have had. Training can emphasise not only co-operative buying but also co-operative management of capital goods, tools and equipment.

3.8.2 Access to suppliers

As far as obtaining supplies are concerned (Table 3.17), two interesting features were observed. The first was the large number of respondents who were buying supplies from retailers such as large chain stores and hypermarkets (30 %). The second was that most people were satisfied (72 %) with the way in which they were obtaining supplies. While 26 % of black and white respondents said that they experienced problems in obtaining supplies, only 6 % of coloured and 7 % of Indian respondents experienced these problems.

One reason for this satisfaction may lie in the development of co-operatives or joint ventures generally and buying co-operatives in particular in the black community. In a recent workshop on co-operatives

(Jaffe 1988:123) it was pointed out that the development of these bodies are, among other factors *"...a response to high levels of unemployment, retrenchment and firm closures."* Co-operatives or joint ventures have taken on a variety of forms, including the formation of worker, consumer and service co-operatives. As far as buying co-operatives are concerned, groups of informal business owners have got together to approach manufacturers and wholesalers for buying access, special prices, discounts and services for their members. A buying co-operative allows bulk buying at cheaper prices. It also allows buying on credit. An increase in purchasing power is gained through the co-operative that would have been impossible for the informal business owner on his own to attain. Any training programme needs to take the spontaneous development of these joint ventures into account. Encouragement of the formation of these co-operatives through training would mean that the indigenous features of the existing culture is taken into account.

3.8.3 Access to transport

The means of transport available to informal business owners varied according to population group (Table 3.18). The use made of taxis (23 %), public transport (23 %) and actually owning a vehicle (22 %) characterised the transport arrangements for the business made by black respondents, while the majority of white respondents owned their own vehicle (71 %) or else used the vehicle of a family member, relative or friend (12 %).

The use of black taxis for business purposes is an interesting development. The taxi industry, which itself started off as an informal business activity to overcome the problems of inefficiently run state and privately owned transport monopolies (McCaul 1990), is an example of the successful development of informal businesses enhanced through the development of co-operatives. Many black taxis are now part of the formal sector, encouraged by organisations such as the South African Black Taxi Association (SABTA).

The taxi industry has reduced commuting times for many commuters, and it now also offers a means of transport for businesses.

Co-operative saving, for example through stokvel clubs, sharing of transport facilities, and the development of specialised delivery businesses are some of the ways in which the informal business owner can be helped to overcome transport problems. Co-operative saving will be discussed in greater detail in the chapter dealing specifically with financiers.

Training should give business owners an understanding of the way in which co-operatives or joint business ventures are developed and how they function.

3.9 OBTAINING CUSTOMERS AND COMMUNITY SUPPORT

In this section the following aspects of customer relations will be dealt with:

- The ways in which customers are obtained.
- Delivery services offered to customers.
- Credit given to customers.
- The ways in which informal business owners perceive their customers and their needs.
- The support that informal business owners obtain from the community.

3.9.1 The ways in which informal business owners obtain customers

The study showed (Table 3.19a) that the most frequently used methods of obtaining customers were *"word of mouth"* ones. Either customers come by themselves (22 %) or else they are referred by other satisfied customers (24 %). When specifically asked whether or not they advertise their businesses, only 18 % of the respondents said that they did so (Table 3.19b). Ways of advertising included placing signboards outside the business premises, using placards, pamphlets, handbills and advertisements placed in the smalls columns of newspapers. However, the respondents indicated that they do not rely on advertising, but rather on building up a reputation, on offering what they perceive to be good quality products, on selling at reasonable prices and on establishing good customer relations to attract customers (Table 3.19c).

This rather limited way of obtaining customers points to the clandestine nature of informal businesses. An extremely relevant training need is marketing generally and advertising in particular. Marketing training should be linked to exploring the need for the product or service, quality of the product and quality of the service.

3.9.2 Offering a delivery service

In view of the ways in which the informal business owners obtained transport, as previously discussed, it is not surprising that relatively few (22 %) respondents offered a delivery service to customers (Table 3.20a).

3.9.3 Offering credit to customers

In spite of the hidden nature of informal businesses, almost half (46 %) of the respondents said that they offered credit to customers. Among those businesses that did offer credit, a relationship of mutual trust had to be built up between customer and owner. The most common way of collecting money (30 % of all respondents) was for the customer to bring it to the business (Table 3.20c). Another way of collecting money was for the respondent or family members to go around collecting the money that is owed (13 %). Relatively few (2 %) of the respondents said that they sent out invoices and statements. Not surprisingly, the main problems experienced by the respondents regarding giving credit centred on payment of debts, and people who cannot be traced to claim the money owed. The possible lack of recourse to legal protection of both the respondent and the customer indicates how important it is for some sort of record of transactions to be kept by the informal sector. This aspect is covered in greater detail in the chapter dealing with customers of informal businesses.

The present methods of collecting money seem adequate under existing circumstances. The wisdom of introducing training in sending out invoices and accounts needs to be questioned, unless informal businesses can be encouraged to become formal, or unless some form of positive official recognition is granted to them. The extent to which *"common law"* in South Africa protects informal business owners and their customers needs further exploration. Access of informal business owners to small claims courts, for example, needs to be investigated.

3.9.4 Perceptions of customers and their needs

To determine the way in which informal business owners perceived their customers and their needs, they were asked to rate a series of adjectives describing their customers on a five point scale. These adjectives ranged from seeing their customers as being very poor to seeing them as being very rich, from seeing them as being very young to very old, from seeing them as being unskilled to being skilled, from seeing them as being fickle to being loyal, from perceiving them as seeking basic goods and services to seeking luxuries and from viewing them as being small spenders to being 'big' spenders (Table 3.21a). A rating of one on the poor-rich scale for example indicated that the respondent thought that his or her average customer was very poor, while a rating of three indicated a perception of an average customer as being neither rich nor poor, and a rating of five indicated that the respondent thought that his or her customers were very rich. Means and standard deviations for each pair of adjectives were calculated.

Not surprisingly, the black informal business owners were more likely to view their average customer as being relatively poor and as buying familiar products, while the white respondents were more likely to view their customers as being richer, more skilled and as buying luxury goods (Table 3.21a). The coloured and Indian respondents tended to describe their average customer in neutral terms. All respondents were likely to see their customers as being fickle, rather than as being loyal.

A factor analysis (Table 3.21b) indicates that the rating of these adjectives describing the respondent's customers formed three separate groups or factors, namely one factor describing the type of products the customer wants, a second factor describing the socio-economic characteristics of the customer and a third factor describing the loyalty of the customer. (The variable young-old did not load significantly onto any factor and was therefore excluded from further data analysis.)

A series of regression analyses were run using these three factors, namely the type of goods the customer wants, the socio-economic status of the customer and the loyalty of the customer as dependent variables. The previously discussed biographical variables and descriptions of the business were used as predictors or independent variables (Table 3.22). These regressions provided useful information regarding how the informal business owner builds up a picture of his or her typical customer since both biographical and business variables were found to have a significant effect on these perceptions. The group area in which the respondents lived, the length of time that they had spent in business, the types of businesses that they ran and the geographical district of the business all made a significant difference to their view of their customers. The specific effects of each independent variable on each dependent variable are discussed below.

(a) Type of goods the customer wants

The following biographical and business variables had a direct influence on the type of goods the respondents thought their customers wanted.

- Group areas: Respondents running businesses in both black established and in squatter areas were more likely to view their customers as wanting more than basic necessities, probably because there are relatively few formal businesses in these areas from which customers can buy other goods. The respondents in coloured areas were however more likely to perceive their customers as wanting basic goods.

- Length of time in the business: Respondents who had been in the business for a relatively long time (11 to 20 years) were more likely to think that their customers wanted basic goods.

- Type of business: Respondents trading in foods they had prepared themselves (fast foods, cakes) were more likely to view their customers as wanting basic goods. Other traders, manufacturers and repairers were more likely to think that their customers wanted more than mere basic goods. Surprisingly, those in arts and crafts businesses thought that their customers wanted basic goods, perhaps reflecting the difficulties they experienced in selling more expensive arts and crafts items.

- Language group: English and Afrikaans speakers were more likely to say their customers wanted more than mere basics, while Sotho and Zulu speakers saw their customers as wanting basic necessities.

- Learning to run a business: Those who had learnt to run a business through childhood experience were more likely to view their customers as wanting basic goods.

- Population group of the majority of customers: If the respondent catered for customers in all population groups, then the customer was seen as wanting more than basic necessities.

- Net monthly profit: The top earners were more likely to see their customers as wanting more than basic necessities.

- Geographical district: Distance of residential areas from formal shopping centres influenced the respondents' perceptions of whether customers wanted basic or luxury goods.

- Sex of the respondent: Males were more likely than females to say that their customers wanted more than basic necessities.

- Counting cash or keeping written records: Respondents who counted cash regularly were more likely to say that their customers wanted more than mere necessities, whilst those who kept written records were more likely to perceive that customers wanted basic necessities rather than luxury goods.

(b) Socio-economic status of customers

Biographical and business variables also influenced whether respondents viewed their customers as being poor or rich, skilled or unskilled. For example, white respondents viewed their customers as being relatively wealthy, those in building businesses also did so, whilst traders were more likely to see their customers as being less well off. Informal business owners in metropolitan centres were more likely to see their customers as being poorer, whilst those in small towns also viewed the socio-economic status of their customers in this way. The more educated the respondent the more likely he or she was to view the customers as being better off financially and more skilled.

(c) Loyalty of the customer

Biographical and business variables were also found to have a significant influence on informal business owners' perceptions regarding their customers' loyalty. For example, builders perceived their customers as being loyal, whilst traders of foods which they themselves had prepared perceived them as being fickle. Xhosa speakers viewed their customers as being loyal and so did those respondents who had learned to run a business through family and friends. The respondents whose customers were mainly drawn from the coloured population group were more likely to view them as being fickle. Those earning intermediate net profits were more likely to see their customers as being loyal compared to those making very small or very large profits. Those in smaller towns were more likely to view their customers as being fickle.

(d) Training implications

These perceptions have definite training implications. The image the owner has of the customer influences the type of goods that are stocked, the type of service that is offered and the quality of these goods and services. It also influences the way in which customer relations are developed. The aim of training should be to give the business owner ways of gaining an accurate picture of the customers by looking at the socio-economic circumstances of the community from which they come.

3.9.5 Community support of the business

The customer is an integral part of the community and an interdependent relationship between the members of the community and the business owner is a sign of a successful and a useful business. It is thus significant to note that when the respondents were asked whether or not their specific community was behind them and supported them in their business, more than three quarters (78 %) felt this to be true. The fact that most of the customers came from within the community was the main reason why the respondents believed that the community supported them. However, there was also co-operation between the business owners themselves within the community, since many business owners referred customers to other businesses in the area and to people they knew well if they themselves could not supply a customer with the needed goods or services (Table 3.23). This finding applied to respondents in all population groups and it contradicts some previous research findings. For example Godsell (1990) stated that among black people and Afrikaans speakers, a social system of obligation, sanction and reciprocity could not be found. These systems of reciprocity do indeed exist.

An important function of training is to stress the importance of developing supportive networks within the community to enable informal businesses to sustain and help each other.

Such co-operation needs to be seen in relation to competition offered by other business owners in the area running similar businesses. However, in this study, relatively few of the respondents (N = 268 or 35 %) felt that they were directly competing for customers with other business owners. Only

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5 % of the respondents were dissatisfied with the way in which they were coping with competition. The convenience of the business site and offering good quality or needed goods and services, in the opinion of the respondents, ensured that they could cope with competition. A preference for co-operation rather than for competition was evident.

3.10 OBTAINING INFORMATION, ADVICE AND TRAINING

The ways in which informal business owners go about obtaining information and advice for the business and the way in which they go about finding out about training for running the business was also explored. The findings (Table 3.24) indicate that similar approaches are used to find out about all these needs.

A large group of respondents indicated that they do not need information (29 %), business advice (20 %) or training (18 %) to help them with their business. The most common way of collecting information and business advice was through using ones' own resources. Business and financial advice could however also be obtained from banks and business societies.

When asked directly whether or not they thought they needed training to run or to improve the business (Table 3.24d), relatively few respondents felt that they needed training to run (24 %) or to expand (25 %) it. This negative opinion may have reflected the lack of time that informal business owners experience when confronted with the need to attend training courses. It may however also indicate that a lack of rapport exists between training organisations and their staff and the informal business owners. A need for better marketing of the training that is available to informal business owners is therefore indicated.

A CHAID analysis (Figure 3.5) indicates that population group was the best predictor of whether or not informal business owners said that they needed training to run the business. The blacks were most likely to say that they needed this training.

A further CHAID analysis (not shown in this report) indicated that population group was again the best predictor of whether or not respondents thought they needed training to improve the business. Both black and white respondents were more likely to say they needed this type of training. In addition another CHAID analysis (Figure 3.6) indicated that both family involvement in the business and the actual type of business which the respondent operated were also important predictors of whether or not respondents believed there was a need for training to improve the business.

The perception that three quarters of the respondents had that they do not need training should be borne in mind when developing training programmes. Self-selection, as previous studies have shown, (Hirschowitz *et al.* 1989) is perhaps the best method of selecting people for training. If there is a lack of motivation to be trained, such training is likely to be less effective.

3.11 ENTREPRENEURIAL CHARACTERISTICS OF INFORMAL BUSINESS OWNERS

It has already been clearly shown that the variety of informal businesses that exist, are started for many different reasons and are run in very different ways. Some of these differences can, in part, be explained by the informal business owner's approach to the business. The person who runs a survival business and who stoically accepts his or her life circumstances is likely to approach business in a different way to the person who actively seeks ways in which to change his or her life circumstances. The *"entrepreneurial"* and the *"survival"* informal business owner are likely to differ markedly from each other.

An entrepreneurial approach to business has been characterised by a variety of authors (cited in Hirschowitz *et al.* 1989:20-21) as consisting of the following components:

- A high level of achievement motivation.
- Innovativeness through doing something unique and different.
- Flexibility and the ability to adjust to change.
- The willingness to take calculated, moderate risks.
- A willingness to take full responsibility for decisions.
- Perseverance and hard work to see ideas through.
- Self-reliance in setting goals and working towards them.

Entrepreneurs are more likely to introduce new goods and new methods of production. They are also likely to open new markets and to obtain new sources of supply and to develop new methods of organising work.

This study made use of two methods to determine whether a respondent had an *"entrepreneurial"* or a *"survival"* approach to the business, namely a story choice and a sentence completion method. These are described below.

3.11.1 Choosing between two stories: one describing survival and the other describing entrepreneurship

A series of nine sets of two stories were read out to the respondents. One type of story represented a survival approach, whilst the other represented an entrepreneurial one. The respondent was then asked to choose whether he or she was more like the person in the first story or more like the person in the second one. Here is an example of a set of two stories taken from the questionnaire:

> *"John couldn't find any work because there are too many people like him looking for jobs who lack marketable skills or qualifications. So he started his own business."*
>
> *"James wanted to be independent. He had a job, but he did not have opportunities at work to make decisions, to act on his own or to use his initiative. So he started his own business.*
>
> *Are you more like John or are you more like James?"*

After each choice, the respondent was asked to give a reason for his or her answer.

The results of this exercise (Table 3.25) showed that more people made *"entrepreneurial"* rather than *"survival"* choices regarding the need for independence (60 %), for finding out the need for the product or service (61 %), for challenge (74 %), for creating their own jobs (77 %) and for obtaining status through running a business (62 %). *"Survival"* choices were more likely to be made regarding the need for the business to satisfy basic needs (58 %), doing nothing to enable the business to grow (67 %) and feeling secure with familiar business activities (57 %). Almost equal numbers of people were happy with the *"survival"* choice of a small business (48 %) as those who wanted to expand such a business (52 %), indicative of entrepreneurship.

A Boolean factor analysis, which is a method of seeing which discrete variables group together, indicated (Table 3.26) that all these choices, except for the one regarding not taking or actually taking steps to expand a business, did actually group together to form one factor. In other words, a person who identified with the story indicative of being independent through running a business also identified with wanting to make a large profit, wanting to expand the business, to try out new activities and other entrepreneurial descriptions. On the other hand a person who identified with the story depicting doing familiar activities in a business also identified with wanting to feed and clothe the family, wanting the business to remain small and other *"survival"* descriptions. The choice of taking active steps to expand a business was excluded from further data analysis. Probably whether or not the respondents could do so depended on their specific circumstances rather than on their *"survival"* or *"entrepreneurial"* approach to business.

The choices that the respondents made could thus be used to obtain a total score indicative of the extent of entrepreneurship. For each story, if the respondent chose a *"survival"* option, he or she was given a score of one, and if an *"entrepreneurial"* option, was chosen, this was given a score of two. Thus scores could range from eight to sixteen for each respondent. These scores were used as the dependent variable in a regression analysis. The effects of both biographical and business variables on the entrepreneurship score were then estimated (Table 3.27).

Both biographical and business variables were found to be significantly related to entrepreneurship as indicated below:

(a) Group areas: Respondents in black *"squatter"* areas were more likely to show entrepreneurial characteristics, while those with businesses in white, coloured and Indian areas were less likely to do so. Perhaps people with entrepreneurial characteristics in black squatter areas are likely to find it more difficult to establish formal businesses, while entrepreneurs in other population groups are more likely to be found in the formal sector, where there is more scope for developing the business.

(b) Type of sites: People operating a business from a street site were more likely to have a *"survival"* approach rather than an entrepreneurial one.

(c) Number of years the business has been in operation: Business experience influenced the development of entrepreneurship. The longer the business had been in operation the more likely the respondent was to have made an entrepreneurial choice.

(d) Type of business: People trading in foods which they had prepared themselves and people in repair businesses were less likely to have an entrepreneurial approach, while people in arts and crafts businesses were more likely to do so.

(e) Home language: People speaking Sotho and related languages and certain other minority African languages, were more likely to have a survival approach to their business. Perhaps not being part of a dominant group influenced the development of a survival approach.

(f) Geographical district: People in those areas such as Cape Town and Durban, where mass migration into *"squatter"* areas is occurring, were more likely to have an entrepreneurial approach to the business, whilst those in smaller towns were less likely to have this approach. The courage that it takes to uproot oneself from a stable, familiar environment, even if it is an impoverished one, and move to a *"squatter"* area, with more risk and insecurity, is the same courage that it takes to start a more enterprising venture.

(g) Sole ownership of the business: Respondents who were the sole owners of the business were more likely to be enterprising than other respondents.

(h) Age: The older the respondent the less likely he or she was to show entrepreneurial characteristics.

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(i) **Previous work experience**: Respondents who had had at least some previous work experience were more likely to be enterprising, compared to those who had not had this experience.

(j) **Keeping written records**: Those who kept written records of business transactions were more likely to be enterprising compared to those who did not do so.

3.11.2 Profile of an enterprising informal business owner

On the basis of answers to the stories, the following profile can be drawn of an enterprising informal business owner. This profile is based on statistical analyses and represents an extreme example. It does not mean that other types of informal business owners necessarily lack entrepreneurial characteristics.

- A black person in a *"squatter"* area where mass migration has occurred from impoverished rural areas.
- Someone who is running an innovative type of business, such as manufacturing arts and crafts items.
- Someone who is unlikely to be selling these products him or herself from a street site.
- Someone who is relatively young but who has had at least some previous work experience.
- Someone who is the sole owner of the business, thus relying more on his or her own resources rather than on others.
- Someone who has sufficient knowledge of business practices to be able to keep written records.

This type of person, given the right circumstances, is likely to expand the business, to create employment and to generate wealth.

He or she is likely to require a different approach to training when compared to the person with a survival approach.

3.11.3 What is best and what is worst about working for yourself

The second method used to assess the extent of entrepreneurial characteristics in the sample was a sentence completion method. The respondents were asked to complete the following two sentences:

- *"The best thing about working for myself is ...."*
- *"The worst thing about working for myself is ...."*

The most frequently mentioned *"best things"* about working for oneself (Table 3.28a) were independence (44 %), being able to earn more money (17 %) and the convenience of working from home (13 %). These are all characteristic of entrepreneurship. People in survival businesses were just as likely to give these responses as others, perhaps indicating that under the right circumstances, a survival approach can develop into an entrepreneurial one.

The most frequently mentioned *"worst things"* about working for oneself (Table 3.28b) were that the income was insufficient or not steady (22 %), the working hours were too long (15 %), the work was too demanding (11 %) and difficulties in obtaining and keeping customers (9 %).

These *"worst"* aspects co-incide with a *"survival"* approach to business. It seems highly likely that survival and entrepreneurial approaches are not necessarily mutually exclusive. But rather a continuum ranging from being almost totally *"survival"* orientated to being almost totally *"entrepreneurial"* orientated is more descriptive of people's approaches to informal business than a dichotomy.

Certain types of training, for example inspirational training and confidence building, together with deregulation and other enabling legislation, can help to encourage the emergence of a more entrepreneurial approach, if many of the fears associated with a survival approach can be overcome. The role that municipal officials can play in this regard will be discussed in a later chapter.

3.12 FUTURE PLANS FOR THE BUSINESS

From the research findings, it seems as if, once someone has experienced the freedom and independence of running a business, the enjoyment of this freedom is likely to be highly valued. When asked whether or not they planned to stay on in their business (Table 3.29a) almost all the respondents (88 %) were planning to do so. Reasons for wanting to stay on in business (Table 3.30) include enjoyment of business (22 %), the business being the sole source of income (21 %), the desire to expand the business (13 %) and the need for independence and self-reliance (11 %).

A CHAID analysis (not shown in this report) indicated that the higher the net profit, the more likely the respondent was to want to stay on in business.

When asked directly whether or not they would accept an offer of a good job with a steady income rather than work in their businesses, just under a quarter (24 %) said they would rather have a job (Table 3.29b). However, less than half the respondents (43 %) had definite plans for expanding the business (Table 3.29c).

A CHAID analysis (Figure 3.7) indicated that having plans to expand the business was more likely to characterise those businesses being run from black *"squatter"* areas than from those being run from other areas, again showing the entrepreneurial drive of these particular business owners. Among those living in Indian areas and in black established areas, the higher the net profit, the more likely the respondent was to plan to expand the business.

The enjoyment of business, of independence and freedom, indicate that an entrepreneurial culture can be encouraged to grow and develop in South Africa if fewer restrictions are placed on people's activities and if more confidence is built up in people's abilities through training.

3.13 POSSIBLE TRAINING AND EDUCATION IMPLICATIONS

The following training implications can be deduced from the research findings that were obtained by looking at businesses from the point of view of informal business owners.

- As far as possible, individualised training programmes should be introduced for different informal business owners. These programmes should be based on the specific problems of the business owner and his or her specific needs.

- Not only classroom situations but also counselling, consulting, mentorship and advice need to be seen as forming an integral part of the training of informal business owners.

- Training should take biographical variables such as level of education of the business owner, his or her home language, the group area in which the business is situated and the geographical district into account.

- Training should also take the socio-economic situation of the customers and the community in which the business is situated into account. A realistic assessment of the customer's needs and what he or she can afford needs to be encouraged through training.

- As far as the actual business is concerned, training should take into account the main business activity on which the business is based. Different training is needed for traders, for manufacturers, for those offering a service and for building and construction businesses.

- In manufacturing, repair and certain service businesses, training to acquire manual or technical skills may be necessary.

- Training should build on childhood business experiences and on the previous work experiences of the trainee. These experiences have already taught the trainee valuable business lessons which should not be ignored.

- The type of site from which the business is operating also needs to be taken into account and how this site can best be used, expanded or changed for other premises, can form important training goals.

- The ownership of the business, and whether or not the respondent is the sole owner of the business can also influence the type of training that is needed. If tasks are shared, different people can specialise in different aspects of running the business.

- If there are employees working in the business, training can be given to help employers to develop good employment practices and sound labour relations. Such training can also help the employer to become a trainer to teach employees the skills that are needed for the business.

- Family involvement in the business also needs to be taken into account. Again, the possibility of specialisation exists, and different types of training can be introduced for different family members.

- The only way in which such diverse training needs can be catered for is through the development of modular training courses and the introduction of more advisory, counselling and mentorship training programmes.

- A modular training course is one that can be broken down into various components or into various levels. Completion of one module gives a trainee certain basic competencies in a work situation. These competencies can be built on by completing additional modules.

- Modular courses will allow the trainee to select a package of skills which best suits him or her and the type of business.

- Certain common skills are needed in all businesses. These include identifying the need for the product or service in the community, marketing and advertising, quality control of goods and services, establishing good customer relations, keeping count of financial transactions, keeping control of stock, costing and pricing of goods and services.

- Each of these types of training can also be presented in a modular form, and the business owner can build up his knowledge and skills, as and when he or she needs to do so.

- Modular training gives the business owner control over the training that is desired and that is received, the rate at which training is received and the actual qualifications that are desired.

- Training should be based on what the trainee already knows and what he or she can practically do, so that this knowledge base can be expanded on. A modular training system allows training to be presented at different levels.

- Any training that takes place in a classroom situation should be clearly implementable in practice.

- Where possible individual mentorship advice and counselling is the preferred method.

- For certain trainees, courses to familiarise them with procedures for obtaining bank loans or loans from development agencies may be necessary.

- The idiosyncratic methods that respondents have used to keep count of stock, of financial transactions and of the financial status of the business should not be dismissed out of hand. But rather, they should be used as a basis on which to build additional skills. These methods can give a clear indication of the level at which training can be introduced.

- The trainer has to be flexible to be able to adapt the training to the unique situation of each trainee.

- The development of co-operatives or associations which help business owners to acquire supplies more cheaply through bulk buying should be taken into account in training. Information about these bodies can be given to trainees.

- These co-operatives are also developing around the need for buying tools and equipment, for obtaining suitable transport and for obtaining finance for the business. Training can help people to know about, to form and to use joint ventures and co-operatives more effectively.

- Training can also be offered to the managers of co-operatives to help them to manage these bodies effectively, taking the informal business owner's needs into consideration.

- Training cannot be seen in isolation to other developments that affect the informal sector. It should be linked to existing legislation, for example, and when legislation changes, training content should change too. Training should be linked to deregulation and to the introduction of legislation which offers more rights and protection for informal business owners and their customers.

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- Whether or not a business owner has a survival or an entrepreneurial approach to the business should be taken into account.

- If the business owner is rooted in a survival business, an upliftment and a developmental approach needs to be taken to training. Latent entrepreneurial characteristics should be encouraged to emerge through methods such as *"inspirational"* training.

- If the business owner already shows entrepreneurial characteristics, then training should enable him or her to develop and try out new ideas, to take moderate risks and to expand the business.

- Self-selection of trainees remains the best method. Those who want to and are highly motivated to receive training should be given the opportunity to do so.

- At the same time, an awareness should be created among the general public of the benefits of training, so that when people want training for a specific type of business or to acquire a specific business skill, they can know where to obtain it.

- An important target group for the marketing of training is the black informal business owner in newly established or squatter areas. These people are more likely to form the pool from which future entrepreneurs can be drawn to develop larger businesses.

- The aims of training of each organisation should be clearly specified, so that when making the choice, the trainee will be able to relate these aims of the organisation to his or her specific needs.

- It needs to be recognised that training can only have a limited impact on the successful functioning of small businesses in the informal sector. The business owner him or herself is the most important contributor to the success or failure of the business. But external factors can also have an impact on the business, over which the business owner has no control.

- The correlations found between business experience in childhood and entrepreneurship indicate that an exposure to business principles and philosophies during schooling may encourage the development of entrepreneurial businesses at a later stage. Successful programmes of entrepreneurship have already been introduced into some schools. These efforts should be encouraged.

- Different training is needed for starting a business, for running it and for expanding it. A modular training system can take these different training needs into account.

- Informal sector businesses should be encouraged to grow and expand and to become part of the formal sector where they have a better chance of being able to create employment for others.

- The development of the informal sector should not be regarded as a panacea for curing all the economic and unemployment ills of the country.

- The role of the small claims court in settling disputes that could arise in dealings with the informal sector needs to be studied. This role could then be taken into account in training.

TABLE 3.1

GEOGRAPHICAL DISTRICT IN WHICH INFORMAL BUSINESS OWNERS WERE FOUND ACCORDING TO THEIR POPULATION GROUP

Geographical district	Population group								TOTAL	
	Black		White		Coloured		Indian			
	N	%	N	%	N	%	N	%	N	%
Johannesburg	60	16,0	21	24,7	20	13,3	40	26,0	141	18,5
Cape Town	51	13,6	5	5,9	54	36,0	10	6,5	120	15,7
Port Elizabeth	50	13,3	9	10,6	30	20,0	20	13,0	109	14,3
Durban	49	13,1	10	11,8	10	6,7	50	32,5	119	15,6
Bloemfontein	15	4,0	10	11,8	-	-	-	-	25	3,3
Newcastle	15	4,0	10	11,8	-	-	10	6,5	35	4,6
Nelspruit	15	4,0	10	11,8	-	-	5	3,3	30	3,9
George	16	4,3	10	11,8	8	5,3	-	-	34	4,5
Witbank	14	3,7	-	-	9	6,0	9	5,8	32	4,2
Pietersburg	15	4,0	-	-	-	-	-	-	15	2,0
Queenstown	15	4,0	-	-	10	6,7	-	-	25	3,3
Harrismith	15	4,0	-	-	-	-	-	-	15	2,0
De Aar	15	4,0	-	-	-	-	-	-	15	2,0
Upington	15	4,0	-	-	9	6,0	-	-	24	3,1
King William's Town	15	4,0	-	-	-	-	-	-	15	2,0
Ladysmith	-	-	-	-	-	-	10	6,5	10	1,3
TOTAL	375	100	85	100	150	100	154	100	764	100

*Respondents were found in both black established as well as in *"squatter"* areas.

TABLE 3.2

BIOGRAPHICAL DESCRIPTION OF INFORMAL BUSINESS OWNERS ACCORDING TO THEIR POPULATION GROUP

Biographical description	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Sex										
Male	174	46,3	28	32,9	97	64,2	77	50,0	376	49,1
Female	202	53,7	57	67,1	54	35,8	77	50,0	390	50,9
TOTAL	376	100	85	100	151	100	154	100	766	100
(b) Age group										
29 years or younger	101	26,9	17	20,0	15	10,1	25	16,2	58	20,7
30 - 36 years	64	17,1	20	23,5	34	22,8	34	22,1	152	19,9
37 - 42 years	66	17,6	18	21,2	21	14,1	44	28,6	149	19,5
43 - 51 years	66	17,6	17	20,0	34	22,8	32	20,8	149	19,5
52 years or older	78	20,8	13	15,3	45	30,2	19	12,3	155	20,3
TOTAL	375	100	85	100	149	100	154	100	763	100
(c) Home language										
Afrikaans	1	0,3	70	83,3	91	60,7	3	2,0	165	21,7
English	1	0,3	14	16,7	54	36,0	36	88,3	205	26,9
Sotho and related	63	16,8	-	-	-	-	-	-	63	8,3
Xhosa	184	49,2	-	-	2	1,3	-	-	186	24,4
Zulu	98	26,2	-	-	-	-	-	-	98	12,9
Other African languages	27	7,2	-	-	3	2,0	-	-	30	3,9
Indian languages (e.g. Urdu)	-	-	-	-	-	-	15	9,7	15	2,0
TOTAL	374	100	84	100	150	100	154	100	762	100
(d) Highest class passed at school										
No schooling to grade 2	37	9,8	-	-	10	6,6	4	2,6	51	6,7
Standard 1 - 3	41	10,9	-	-	7	4,6	5	3,3	53	6,9
Standard 4 - 5	78	20,7	-	-	20	13,3	11	7,1	109	14,2
Standard 6 - 7	100	26,6	7	8,2	58	38,4	43	27,9	208	27,2
Standard 8 - 9	82	21,8	10	11,7	31	20,5	53	34,4	176	23,0
Matriculation	38	10,1	68	80,0	25	16,6	38	24,7	169	22,1
TOTAL	376	100	85	100	151	100	154	100	766	100
(e) Receive any other education/training										
Yes	108	29,4	67	78,8	54	37,5	58	37,7	287	38,2
No	260	70,6	18	21,2	90	62,2	96	62,3	464	61,8
TOTAL	368	100	85	100	144	100	154	100	751	100

TABLE 3.3

DESCRIPTION OF THE INFORMAL BUSINESS OWNERS' CHILDHOOD, ACCORDING TO THEIR POPULATION GROUP

Childhood	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Where childhood was spent										
On a farm	81	21,5	22	25,9	12	8,0	13	8,4	128	16,7
In a village	89	23,7	19	22,4	27	17,9	3	2,0	138	18,0
In or near a town	137	36,4	12	14,1	45	29,8	48	31,2	242	31,6
In or near a city	50	13,3	31	36,5	66	43,7	90	58,4	237	30,9
Other (e.g. Zimbabwe)	19	5,1	1	1,2	1	0,7	-	-	21	2,7
TOTAL	376	100	85	100	151	100	154	100	766	100
(b) Whether or not informal business owners had been exposed to a business evironment during childhood										
Yes	128	34,4	20	24,1	54	36,2	67	43,8	269	35,5
No	244	65,6	63	75,9	95	63,8	86	56,2	488	64,5
TOTAL	372	100	83	100	149	100	153	100	757	100

TABLE 3.4

PREVIOUS WORK EXPERIENCE OF THE RESPONDENTS

(a) Whether or not the informal business owners had had previous work experience before starting their present business according to their population group

Previous work experience	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	224	59,6	77	90,6	121	80,1	88	57,1	510	66,6
No	152	40,4	8	9,4	30	19,9	66	42,9	256	33,4
TOTAL	376	100	85	100	151	100	154	100	766	100

(b) Among those informal business owners who had previously worked for someone else, number of years as an employee according to population group

Previous work experience	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
3 years or less	55	24,7	16	21,9	10	8,5	17	19,5	98	19,6
4 - 6 years	59	26,5	10	13,7	13	11,1	13	14,9	95	19,0
7 - 11 years	46	20,6	19	26,0	22	18,8	24	27,6	111	22,2
12 - 19 years	33	14,8	17	23,3	24	20,5	22	25,3	96	19,2
20 years or more	30	13,4	11	15,1	48	41,0	11	12,6	100	20,0
TOTAL	223	100	73	100	117	100	87	100	500	100

TABLE 3.5

TYPE OF WORK INFORMAL BUSINESS OWNERS HAD DONE IN PREVIOUS EMPLOYMENT ACCORDING TO THEIR POPULATION GROUP AND REASONS FOR LEAVING PREVIOUS EMPLOYMENT

(a) Type of work

Type of work	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
No previous work experience and non responses	154	41,0	8	9,4	31	20,5	67	43,5	260	33,9
Mining	3	0,8	-	-	-	-	-	-	3	0,4
Domestic work, farming and gardening	55	14,6	1	1,2	2	1,3	1	0,7	59	7,7
Driving a vehicle	21	5,6	-	-	6	4,0	2	1,3	29	3,8
Sewing, knitting and related	10	2,7	-	-	11	7,3	13	8,4	34	4,4
Technical and artisan work	37	9,8	20	23,5	27	17,9	21	13,6	105	13,7
Repairs and maintenance	6	1,6	-	-	1	0,7	2	1,3	9	1,2
Semi-skilled (e.g. machine operator)	14	3,7	-	-	7	4,6	3	2,0	24	3,1
Bookkeeping, secretarial, clerical	11	2,9	33	38,8	7	4,6	15	9,7	66	8,6
Unskilled (e.g. labourer)	29	7,7	-	-	15	9,9	4	2,6	48	6,3
Supervisor, foreman or manager	3	0,8	1	1,2	11	7,3	7	4,6	22	2,9
Wine steward, waiter or cook	7	1,9	1	1,2	2	1,3	1	0,7	11	1,4
Shop assistant or selling	17	4,5	2	2,4	11	7,3	11	7,2	41	5,4
Professional or semi-professional	5	1,3	17	20,0	3	2,0	2	1,3	27	3,5
Personal services	1	0,3	-	-	3	2,0	1	0,7	5	0,7
Building and related	3	0,8	2	2,4	14	9,3	4	2,6	23	3,0
TOTAL	376	100	85	100	151	100	154	100	766	100

(b) Main reasons for leaving employment

Main reasons for leaving employment	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
No previous work experience and non responses	155	41,2	9	10,6	31	20,5	67	43,5	262	34,2
Respondent is still working there (part-time)	4	1,1	6	7,1	6	4,0	5	3,3	21	2,7
Too little pay	65	17,3	6	7,1	17	11,3	17	11,0	105	13,7
Illness, old age, disability	29	7,7	1	1,2	10	6,6	3	2,0	43	5,6
Respondent wanted to start a business	18	4,8	7	8,2	24	15,9	7	4,6	56	7,3
Respondent was unhappy at work	18	4,8	-	-	10	6,6	10	6,5	38	5,0
Lost the job as a result of bad economic conditions	53	14,1	4	4,7	25	16,6	12	7,8	94	12,3
Family considerations	16	4,3	32	37,7	11	7,3	20	13,0	79	10,3
Respondent wanted independence	5	1,3	2	2,4	4	2,7	3	2,0	14	1,8
Unsure/can't remember	3	0,8	6	7,1	5	3,3	1	0,7	15	2,0
Transport problems	4	1,1	-	-	1	0,7	1	0,7	6	0,8
Respondent obtained better employment	4	1,1	8	9,4	5	3,3	6	3,9	23	3,0
Respondent was transferred	2	0,5	4	4,7	2	1,3	2	1,3	10	1,3
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.6

DESCRIPTION OF INFORMAL BUSINESSES ACCORDING TO THE POPULATION GROUP OF THE INFORMAL BUSINESS OWNER

Description of informal businesses	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Type of business										
Trading - prepared foods (e.g. fast foods)	6	1,6	14	16,5	3	2,0	14	9,1	37	4,8
Trading - groceries and ready made goods	174	46,4	8	9,4	43	28,5	34	22,1	259	33,9
Personal services (e.g. bookkeeping, hairdressing)	45	12,0	14	16,5	10	6,6	20	13,0	89	11,6
Manufacturing (e.g. carpentry, sewing)	51	13,6	24	28,2	38	25,2	35	22,7	148	19,4
Repair services	61	16,3	7	8,2	29	19,2	35	22,7	132	17,3
Building and construction	13	3,5	6	7,1	14	9,3	4	2,6	37	4,8
Arts and crafts (e.g. pottery, basketry)	-	-	11	12,9	1	0,7	3	2,0	15	2,09
Entertainment services (e.g. shebeens)	24	6,4	-	-	5	3,3	4	2,6	33	4,3
Transport services	1	0,3	1	1,2	8	5,3	5	3,3	15	2,0
TOTAL	375	100	85	100	151	19,7	154	100	765	100
(b) Type of business site										
Indoors at a residence	121	32,2	63	74,1	78	51,7	108	70,1	370	48,3
Semi-formal business premises	15	4,0	9	10,6	15	9,9	8	5,2	47	6,1
Outdoors but not at a residence	131	34,8	8	9,4	38	25,2	16	10,4	193	25,2
Outdoors at a residence	104	27,7	5	5,9	16	10,6	17	11,0	142	18,5
Other and unknown	5	1,3	-	-	4	2,7	5	3,3	14	1,8
TOTAL	376	100	85	100	151	100	154	100	766	100
(c) Extent of satisfaction with business site										
Not applicable (e.g. building)	12	3,2	-	-	4	2,7	2	1,3	18	2,4
Dissatisfied	109	29,0	6	7,1	9	6,0	11	7,1	135	17,6
Neutral	66	17,6	7	8,2	28	18,5	18	11,7	119	15,5
Satisfied	189	50,3	72	84,7	110	72,9	123	79,9	494	64,5
TOTAL	376	100	85	100	151	100	154	100	766	100
(d) Number of business owners										
Respondent is the sole owner	342	91,0	74	87,1	140	92,7	140	90,9	696	90,9
There are two owners	21	5,6	5	5,9	6	4,0	8	5,2	40	5,2
Three or more owners	13	3,5	6	7,1	5	3,3	6	3,9	30	3,9
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.7

REASONS FOR SATISFACTION/DISSATISFACTION WITH THE PLACE WHERE THE BUSINESS IS LOCATED

Satisfaction/dissatisfaction with location of business	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Positive reasons										
Convenient to work from home	42	11,2	24	28,2	42	27,8	64	41,6	172	22,5
Premises are well situated	71	18,9	33	38,8	39	25,8	27	17,5	170	22,2
Existing premises are adequate	31	8,2	6	7,1	6	4,0	12	7,8	55	7,2
Customers support the business	31	8,2	-	-	5	3,3	11	7,1	47	6,1
Do not have to pay rent	7	1,9	-	-	-	-	6	3,9	13	1,7
No other choice available to respondent	6	1,6	-	-	3	2,0	2	1,3	11	1,4
No problems experienced	14	3,7	-	-	7	4,6	2	1,3	23	3,0
Subtotal	202	53,7	63	74,1	102	67,5	124	80,5	491	64,1
(b) Negative reasons										
Premises are too small	44	11,7	-	-	14	9,3	12	7,8	70	9,1
Premises are far from customers	7	1,9	6	7,1	2	1,3	2	1,3	17	2,2
Business facilities (e.g. telephone) not available	3	0,8	-	-	-	-	1	0,7	4	0,5
Respondent wants better premises but has no access to these	33	8,8	3	3,5	8	5,3	2	1,3	46	6,0
Using one's homes is inconvenient	10	2,7	-	-	-	-	3	2,0	13	1,7
Robberies, theft	10	2,7	1	1,2	-	-	1	0,7	12	1,6
No shelter if one is outdoors	29	7,7	4	4,7	2	1,3	-	-	35	4,6
There is too much competition	8	2,1	-	-	1	0,7	1	0,7	10	1,3
Subtotal	144	38,2	14	16,5	27	17,9	22	14,3	207	27,0
(c) Neutral responses										
Premises are not necessary	3	0,8	1	1,2	11	7,3	5	3,3	20	2,6
Other problems are more demanding than lack of premises	3	0,8	-	-	1	0,7	-	-	4	0,5
Problems not stated	24	6,4	7	8,2	10	6,6	3	2,0	44	5,7
Subtotal	30	8,0	8	9,4	22	14,6	8	5,2	68	8,9
TOTAL	376	100	85	100	151	100	154	100	766	100

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TABLE 3.8

FINANCIAL CONTRIBUTION OF THE INFORMAL BUSINESS ACCORDING TO THE POPULATION GROUP OF THE OWNER

Financial contribution	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Net profit per month										
Profit not indicated	39	10,4	4	4,7	51	33,8	25	16,2	119	15,5
R100 or less	106	28,2	7	8,2	13	8,6	23	14,9	149	19,5
R101 - 270	87	23,1	7	8,2	17	11,3	26	16,9	137	17,9
R271 - 550	75	19,9	22	25,9	24	15,9	29	18,8	150	19,6
R551 - 2500	59	15,7	26	30,6	35	23,2	41	26,6	161	21,0
R2501 or more	10	2,7	19	22,4	11	7,3	10	6,5	50	6,5
TOTAL	376	100	85	100	151	100	154	100	766	100
(b) Percentage of income that the business contributes to the family										
10 % or less	12	3,2	31	36,5	18	11,9	19	12,3	80	10,4
11 - 25 %	20	5,3	11	12,9	14	9,3	24	15,6	69	9,0
26 - 40 %	25	6,7	10	11,8	11	7,3	25	16,2	71	9,3
41 - 60 %	37	9,8	5	5,9	17	11,3	13	8,4	72	9,4
61 - 99 %	18	4,8	3	3,5	9	6,0	5	3,3	35	4,6
100 % i.e. all income (sole source of income)	264	70,2	25	29,4	82	54,3	68	44,2	439	57,3
TOTAL	376	100	85	100	151	100	154	100	766	100
(c) Other sources of income										
Business is the sole source of income	264	70,2	25	29,4	82	54,3	68	44,2	439	57,3
Respondent has another job	23	6,1	11	12,9	20	13,2	24	15,6	78	10,2
Spouse/both spouses have a job	44	11,7	44	51,8	24	15,9	49	31,8	161	21,0
Other family members work	28	7,4	-	-	5	3,3	12	7,8	45	5,9
Respondent receives a pension/disability grant	15	4,0	5	5,9	15	9,9	1	0,6	36	4,7
Respondent has another business	2	0,5	-	-	5	3,3	-	-	7	0,9
TOTAL	376	100	85	100	151	100	154	100	766	100

Table 3.8 (Continued)

Financial contribution	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(d) Number of people the *business actually supported										
1 - 2 people	29	11,7	9	42,9	18	25,7	11	18,6	67	16,8
3 - 4 people	51	20,5	9	42,9	30	42,9	19	32,2	109	27,3
5 - 6 people	60	24,1	1	4,8	21	30,0	14	23,7	96	24,1
7 - 8 people	41	16,5	2	9,5	1	1,4	14	23,7	58	14,5
9 people or more	68	27,3	-	-	-	-	1	1,7	69	17,3
TOTAL	249	100	21	100	70	100	59	100	399	100

*Among those businesses that solely supported the business owners and their families.

TABLE 3.9

ADDITIONAL HUMAN RESOURCES AVAILABLE TO THE BUSINESS

Human resources	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Any paid employees										
Yes	94	25,1	41	48,2	49	31,8	32	21,2	216	28,2
No	281	74,9	44	51,8	105	68,2	119	78,8	549	71,8
TOTAL	375	100	85	100	154	100	151	100	765	100
(b) If yes: Number of employees										
One	30	31,9	19	46,3	16	32,7	11	34,4	76	35,2
Two	26	27,7	9	21,9	13	26,5	11	34,4	59	27,3
Three or more	38	40,4	13	31,7	20	40,8	10	31,3	81	37,5
TOTAL	94	100	41	100	49	100	32	100	216	100
(c) Family member working in the business										
Yes	123	32,7	21	24,7	33	21,9	38	24,7	215	28,1
No	253	67,3	64	75,3	118	78,2	116	75,3	551	71,9
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.10

REASONS FOR STARTING AN INFORMAL BUSINESS ACCORDING TO THE POPULATION GROUP OF THE RESPONDENTS

Reasons given	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Respondent wanted to earn more money	76	20,4	16	18,9	30	19,9	36	23,4	158	20,7
Business enables respondent to survive	74	19,9	1	1,2	10	6,5	11	7,1	96	12,6
Respondent could not find work	80	21,5	2	2,4	15	9,9	19	12,3	116	15,2
Respondent started business to avoid boredom	8	2,2	17	20,0	12	8,0	26	16,9	63	8,3
Business was started to supplement the family income	17	4,6	16	18,9	13	8,6	14	9,0	60	7,9
Respondent wanted to be independent	52	14,0	14	16,5	37	24,5	13	8,4	116	15,2
Repondent dislikes working for someone else	8	2,2	-	-	7	4,6	5	3,3	20	2,6
Business provides needed goods and services	10	2,7	5	5,9	6	4,0	5	3,3	26	3,4
Interest in business	27	7,3	11	12,9	15	9,9	16	10,4	69	9,0
Family circumstances (for example husband's health is poor)	12	3,2	1	1,2	3	2,0	4	2,6	20	2,6
Old age, illness and disability of the respondent	8	2,2	2	2,4	3	2,0	5	3,3	18	2,4
TOTAL	372	100	85	100	151	100	154	100	762	100

TABLE 3.11

LEARNING ABOUT THE BUSINESS

(a) How informal business owners learned to perform the service or make the product of the business according to population group

How owner learned to make product or perform service	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Friend, relative or spouse	54	14,4	1	1,9	19	12,6	22	14,3	96	12,5
Previous employer	32	8,5	4	4,7	32	21,2	10	6,5	78	10,2
Self taught through experience	115	30,6	36	42,4	38	25,2	40	26,0	229	29,9
Attended training courses	68	18,1	29	34,1	25	16,6	41	26,6	163	21,3
Childhood experience	40	10,6	5	5,9	13	8,6	22	14,3	80	10,4
Contact with other business owners	19	5,1	2	2,4	3	2,0	8	5,2	32	4,2
Formal education (university, technical college, technikon)	2	0,5	6	7,1	5	3,3	5	3,3	18	2,4
Do not know/not applicable	46	12,2	2	2,4	16	10,6	6	3,9	70	9,1
TOTAL	376	100	85	100	151	100	154	100	766	100

(b) How informal business owners learned to run a business according to their population group

How owner learned to run a business	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Friend, relative or spouse	49	13,0	7	8,2	14	9,3	13	8,4	83	10,8
Previous employer	29	7,7	9	10,6	14	9,3	10	6,5	62	8,1
Self taught through experience	199	52,9	52	61,2	96	63,6	99	64,3	446	58,2
Formal education, reading and training	32	8,5	9	10,6	6	4,0	6	3,9	53	6,9
Childhood experience	40	10,6	1	1,2	10	6,6	19	12,3	70	9,1
Contact with others in business	20	5,3	4	4,7	5	3,3	4	2,6	33	4,3
Professional advice	2	0,5	1	1,2	1	0,7	-	-	4	0,5
Do not know/not applicable	5	1,3	2	2,4	5	3,3	3	2,0	15	2,0
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.12

THE MAIN WAYS IN WHICH INFORMAL BUSINESS OWNERS FINANCED THEIR BUSINESS WHEN THEY FIRST STARTED IT

(a) Main ways of financing the business

Main ways	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
No indication given	24	6,4	1	1,2	6	4,0	7	4,6	38	5,0
Customer gave deposits or supplied raw material (e.g. dress material)	4	1,1	1	1,2	10	6,6	2	1,3	17	2,2
Respondents used savings, pensions, inheritance or other sources of their own money	193	51,3	59	69,4	86	57,0	92	59,7	430	56,1
Respondent started very small	17	4,5	6	7,1	25	16,6	15	9,7	63	8,2
Obtained or borrowed money from family, relatives or friends	102	27,1	7	8,2	13	8,6	26	16,9	148	19,3
Borrowed money from formal lending organization	21	5,6	11	12,9	7	4,6	7	4,6	46	6,0
Obtained credit from the supplier	-	-	-	-	1	0,7	1	0,7	2	0,3
Respondent took the business over	2	0,5	-	-	-	-	4	2,6	6	0,8
Informal money lender	2	0,5	-	-	-	-	-	-	2	0,3
Part time work	10	2,7	-	-	2	1,3	-	-	12	1,6
Stokvels/savings clubs	1	0,3	-	-	1	0,6	-	-	2	0,3
TOTAL	376	100	85	100	151	100	154	100	766	100

(b) Borrowed money

Yes	63	16,9	20	23,5	17	11,3	24	15,7	124	16,3
No	310	83,1	65	76,5	133	88,7	129	84,3	637	83,7
TOTAL	373	100	85	100	150	100	153	100	761	100

(c) Whether or not informal business owners had a bank or building society account for the business

Yes	188	50,5	51	60,7	46	30,5	41	26,6	326	42,8
No	184	49,5	33	39,3	105	69,5	113	73,4	435	57,2
TOTAL	372	100	84	100	151	100	154	100	761	100

TABLE 3.13

METHODS OF KEEPING COUNT OF FINANCIAL TRANSACTIONS

Keeping count of financial transactions		Population group									
		Black		White		Coloured		Indian		TOTAL	
		N	%	N	%	N	%	N	%	N	%
(a) Counting cash on a regular basis	Yes	297	79,4	48	56,5	85	56,3	84	54,6	514	67,3
	No	77	20,6	37	43,5	66	43,7	70	45,5	250	32,7
TOTAL		374	100	85	100	151	100	154	100	764	100
(b) Keeping written records	Yes	146	39,4	63	75,0	75	50,7	83	53,9	367	48,5
	No	225	60,6	21	25,0	73	49,3	71	46,1	390	51,5
TOTAL		371	100	84	100	148	100	154	100	757	100
(c) Records are kept by											
A family member		35	9,4	5	6,0	14	9,5	10	6,5	64	8,5
A paid bookkeeper		11	3,0	8	9,5	14	9,5	19	12,3	52	6,9
The informal business owner		100	26,9	50	59,5	47	31,8	54	35,1	251	33,2
No financial records kept		225	60,6	21	25,0	73	49,3	71	46,1	390	51,5
TOTAL		371	100	84	100	148	100	154	100	757	100
(d) Working out whether business is running at a profit or loss											
Recognised counting or bookkeeping system		191	50,8	68	80,0	90	59,6	70	45,5	419	54,7
Idiosyncratic method		57	15,2	3	3,5	21	13,9	9	5,8	90	11,7
No indication was given		2	0,5	2	2,4	-	-	4	2,6	8	1,0
Owner does not work out profits		126	33,5	12	14,1	40	26,5	71	46,1	249	32,5
TOTAL		376	100	85	100	151	100	154	100	766	100
(e) Frequency of working out whether business was running at a profit/loss											
After each transaction		9	2,4	13	15,3	5	3,3	4	2,6	31	4,1
Daily		31	8,2	5	5,9	6	4,0	3	2,0	45	5,9
Weekly		114	30,3	7	8,2	34	22,5	31	20,1	186	24,3
Fortnightly to monthly		88	23,4	43	50,6	58	38,4	34	22,1	223	29,1
Quarterly		1	0,3	1	1,2	2	1,3	2	1,3	6	0,8
Annually		1	0,3	4	4,7	1	0,7	7	4,6	13	1,7
Irregularly		6	0,8	-	-	5	3,3	2	1,3	13	1,7
Never		126	33,5	12	14,1	40	26,5	71	46,1	249	32,5
TOTAL		376	100	85	100	151	100	154	100	766	100

TABLE 3.14

WAYS IN WHICH INFORMAL BUSINESS OWNERS KEEP CONTROL OF STOCK ACCORDING TO THEIR POPULATION GROUP

Keeping control of stock	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
No method of control stated	28	7,5	4	4,7	17	11,3	14	9,1	63	8,2
Keeping written records	51	13,6	18	21,2	24	15,9	32	20,8	125	16,3
Buying only when profits are seen	22	5,9	2	2,4	4	2,7	2	1,3	30	3,9
Obtaining material for specific orders	7	1,9	15	17,7	21	13,9	11	7,1	54	7,1
Counting stock regularly	154	41,0	17	20,0	33	21,9	35	22,7	239	31,2
Buying when stock runs out	57	15,2	19	22,4	29	19,2	31	20,1	136	17,8
Buying what sells best	26	6,9	-	-	7	4,6	10	6,5	43	5,6
Stock not needed in the business	10	2,7	8	9,4	13	8,6	19	12,3	50	6,5
Keeping extra stock	21	5,6	2	2,4	3	2,0	-	-	26	3,4
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.15

THE MOST IMPORTANT TYPES OF CAPITAL GOODS, EQUIPMENT AND TOOLS NEEDED BY INFORMAL BUSINESS OWNERS AND WHETHER THEY HAD ACCESS TO THEM

(a) Type of capital goods, equipment and tools

Types of goods, equipment and tools	Number of respondents needing this item	Respondents having access to these items	
		N	%*
Sewing and knitting machines, equipment and material	121	102	84,3
Cash register, shelves, racks, scales, storage equipment and refrigerators	123	78	63,4
Shoe making or repairing or cleaning equipment	24	15	62,5
Carpentry, woodwork and upholstery tools and equipment	31	29	93,6
Metalwork machinery, tools and equipment	29	26	89,7
Equipment for a hairdressing or beauty salon	51	36	70,6
Equipment and tools for building and construction	51	35	68,6
Stoves and utensils for food preparation	34	33	97,1
Equipment for motor vehicle repairs and panel beating	52	43	82,7
Tables, chairs, table cloths, glasses and plates (shebeens, taverns and restaurants)	13	6	46,2
Electricity, telephones and other business and office equipment	18	13	72,2
Motor vehicle to transport goods	55	30	54,6
Better business site, shelter, stall	26	8	30,8
Equipment for personal services (carpet cleaning, gardening, nursery school)	22	20	90,9
Equipment for arts and crafts manufacture	10	8	80,0
Equipment for electrical repairs	10	10	100,0

*Percentage of the number of respondents needing the item.

(b) Whether or not respondents had access to the captial toods, tools and equipment according to population group

Has access	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	181	48,1	79	92,9	109	72,2	124	80,5	493	64,4
No	195	51,9	6	7,1	42	27,8	30	19,5	273	35,6
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.16

EXTENT TO WHICH INFORMAL BUSINESS OWNERS WERE SATISFIED WITH THE CAPITAL GOODS, TOOLS AND EQUIPMENT AVAILABLE TO THEM AND REASONS FOR BEING SATISFIED/ DISSATISFIED

(a) Extent of satisfaction

Extent of satisfaction	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Not applicable	25	6,7	3	3,5	8	5,3	20	13,0	56	7,3
Dissatisfied	137	36,4	5	5,9	5	3,3	8	5,2	155	20,2
Neutral	73	19,4	9	10,6	31	20,5	11	7,1	124	16,2
Satisfied	141	37,5	68	80,0	107	70,9	115	74,7	431	56,3
TOTAL	376	100	85	100	151	100	154	100	776	100

(b) Reasons for satisfaction/dissatisfaction

Positive reasons										
Equipment is in good working order	25	6,7	47	55,3	16	10,6	37	24,0	125	16,3
Respondent owns the necessary equipment	59	15,7	11	12,9	68	45,0	63	40,9	201	26,2
Respondent manages well despite poor tools and equipment	43	11,4	3	3,5	17	11,3	10	6,5	73	9,5
Respondent hires tools and equipment	-	-	2	2,4	1	0,7	-	-	3	0,4
No problems experienced	5	1,3	-	-	7	4,6	3	2,0	15	2,0
Subtotal	132	35,1	63	74,1	109	72,2	113	73,4	417	54,4
Negative reasons										
Premises are unsuitable for better tools	23	6,1	-	-	3	2,0	1	0,7	27	3,5
Outdated or old tools and equipment	13	3,5	3	3,5	4	2,7	-	-	20	2,6
Quality of goods suffers because equipment is inadequate	86	22,9	8	9,4	8	5,3	11	7,1	113	14,8
No electricity	11	2,9	-	-	1	0,7	-	-	12	1,6
Respondent cannot afford to buy equipment	40	10,6	1	1,2	5	3,3	2	1,3	48	6,3
Respondent works slowly because of poor equipment	8	2,1	-	-	-	-	-	-	8	1,0
Subtotal	181	48,1	12	14,1	21	13,9	14	9,1	228	29,8
Neutral reasons										
Tools and equipment not needed	54	14,4	10	11,8	20	13,3	27	17,5	111	14,5
Other problems are more demanding than equipment	9	2,4	-	-	1	0,7	-	-	10	1,3
Subtotal	63	16,8	10	11,8	21	13,9	27	17,5	121	15,8
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.17

ACCESS OF INFORMAL BUSINESS OWNERS TO SUPPLIES

(a) Channels through which informal business owners obtain their supplies

Supply channels	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Retailer	116	30,9	21	24,7	39	25,8	53	34,4	229	29,9
Wholesaler	97	25,8	34	40,0	44	29,1	54	35,1	229	29,9
Client provides material	1	0,3	4	4,7	5	3,3	1	0,7	11	1,4
Fresh produce market or farm	68	18,1	3	3,5	14	9,3	4	2,6	89	11,6
Factory or manufacturer	15	4,0	5	5,9	10	6,6	9	5,8	39	5,1
Specialist suppliers	35	9,3	12	14,1	19	12,6	12	7,8	78	10,2
Discount shops	5	1,3	-	-	2	1,3	-	-	7	0,9
No indication given	35	9,3	5	5,9	16	10,6	11	7,1	67	8,8
Informal suppliers	2	0,5	1	1,2	2	1,3	4	2,6	9	1,1
Agents or distributors	2	0,5	-	-	-	-	6	3,9	8	1,0
TOTAL	376	100	85	100	151	100	154	100	776	100

(b) The extent to which informal business owners were satisfied with the way in which they obtain their supplies according to population group

Extent of satisfaction	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Not applicable	11	2,9	3	3,5	6	4,0	3	2,0	23	3,0
Dissatisfied	61	16,2	6	7,1	3	2,0	-	-	70	9,1
Neutral	64	17,0	16	18,8	20	13,3	21	13,6	121	15,8
Satisfied	240	63,8	60	70,6	122	80,8	130	84,4	552	72,1
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.18

THE MEANS OF TRANSPORT AVAILABLE TO INFORMAL BUSINESS OWNERS AND THEIR SATISFACTION WITH TRANSPORT

(a) Means of transport

Means of transport	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Family member, relative or friend has transport	30	8,0	10	11,8	35	23,2	33	21,4	108	14,1
Use made of public transport	86	22,9	-	-	22	14,6	4	2,6	112	14,6
Respondent owns a vehicle	84	22,3	60	70,6	64	42,4	76	49,4	284	37,1
Respondent hires a vehicle	24	6,4	5	5,9	6	4,0	-	-	35	4,6
No means of transport available	40	10,6	4	4,7	10	6,6	24	15,6	78	10,2
Respondent uses taxis	86	22,9	-	-	1	0,7	6	3,9	93	12,1
Bicycle or wheelbarrow	6	1,6	-	-	-	-	-	-	6	0,8
Suppliers or customers transport the goods	9	2,4	2	2,4	5	3,3	1	0,7	17	2,2
Respondent does not need transport for the business	11	2,9	4	4,7	8	5,3	10	6,5	33	4,3
TOTAL	376	100	85	100	151	100	154	100	766	100

(b) Extent to which respondents were satisfied with their means of transport

Not applicable	23	6,1	2	2,3	2	1,3	8	5,2	35	4,6
Dissatisfied	80	21,3	5	5,9	12	8,0	11	7,1	108	14,1
Neutral	54	14,4	5	5,9	23	15,2	11	7,1	93	12,1
Satisfied	219	58,2	73	85,9	114	75,5	124	80,5	530	69,2
TOTAL	376	100	85	100	151	100	154	100	766	100

(c) Reasons for satisfaction/dissatisfaction with transport

Positive reasons										
No problems experienced	67	18,9	13	17,8	32	22,9	24	16,4	136	19,1
Transport is readily available	98	27,6	6	8,2	25	17,9	26	17,8	155	21,7
Respondent owns a vehicle	46	13,0	36	49,3	38	27,1	58	39,7	178	24,9
Suppliers or customers have transport	23	6,5	8	11,0	19	13,6	14	9,6	64	9,0
No need for transport	1	0,3	1	1,4	3	2,1	5	3,4	10	1,4
Subtotal	235	66,2	64	87,7	117	83,6	127	87,0	543	76,1
Negative reasons										
Transport is too expensive	32	9,0	3	4,1	1	0,7	-	-	36	5,0
Vehicle is old and in need of repair	14	3,9	4	5,5	4	2,9	3	2,1	25	3,5
Respondent does not have transport	32	9,0	2	2,7	12	8,6	7	4,8	53	7,4
Unreliable transport and people supplying the transport	42	11,8	-	-	6	4,3	9	6,2	57	8,0
Subtotal	120	33,8	9	12,3	23	16,4	19	13,0	171	23,9
TOTAL	355	100	73	100	140	100	146	100	714	100

TABLE 3.19

THE WAYS IN WHICH INFORMAL BUSINESS OWNERS OBTAIN THEIR CUSTOMERS, WHETHER OR NOT THEY ADVERTISE THEIR BUSINESSES AND WHY THEY THINK CUSTOMERS BUY FROM THEM

Obtaining customers	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Ways in which customers are obtained										
Customers come by themselves	103	27,4	14	16,5	35	23,2	19	12,3	171	22,3
Referrals by satisfied customers	49	13,0	28	32,9	41	27,2	63	40,9	181	23,6
Respondent offers good quality products or services	42	11,2	12	14,1	16	10,6	1	0,7	71	9,3
Respondent actively markets the business	33	8,8	12	14,1	20	13,3	42	27,3	107	14,0
Through establishing good customer relations	25	6,7	2	2,4	12	8,0	6	3,9	45	5,9
Products easily visible to passers by	41	10,9	3	3,5	7	4,6	7	4,6	58	7,6
Advertising through pamphlets, cards or signboards	44	11,7	6	7,1	14	9,3	7	4,6	71	9,3
Selling house to house	6	1,6	1	1,2	2	1,3	4	2,6	13	1,7
Offering special discounts, sales, cheaper prices	20	5,3	1	1,2	1	0,7	1	0,7	23	3,0
Do not know	13	3,5	6	7,1	3	2,0	4	2,6	26	3,4
TOTAL	376	100	85	100	151	100	154	100	766	100
(b) Advertising the business:										
Yes	82	21,8	18	21,2	24	15,9	13	8,4	137	17,9
No	294	78,2	67	78,8	127	84,1	141	91,6	629	82,1
TOTAL	376	100	85	100	151	100	154	100	766	100
(c) Why customers buy from the business										
The amount of money made indicates that customers are satisfied	8	2,1	-	-	-	-	-	-	8	1,0
The business has a good reputation	25	6,6	2	2,4	14	9,3	3	2,0	44	5,7
Good quality products	75	20,0	34	40,0	36	23,8	35	22,7	180	23,5
Reasonable prices	51	13,6	10	11,8	31	20,5	18	11,7	110	14,4
Good customer relations	63	16,8	7	8,2	16	10,6	22	14,3	108	14,1
Business offers a good service	51	13,6	20	23,5	34	22,5	41	26,6	146	19,1
Business is conveniently situated	12	3,2	-	-	13	8,6	12	7,8	37	4,8
The type of product that is sold is in demand	13	3,5	9	10,6	6	4,0	12	7,8	40	5,2
Being busy is evidence of support	24	6,4	-	-	-	-	1	0,7	25	3,3
Do not know	34	9,0	2	2,4	1	0,7	5	3,3	42	5,5
Respondent gives credit to customers	12	3,2	-	-	-	-	2	1,3	14	1,8
Only business of this type in this area	8	2,1	1	1,2	-	-	3	2,0	12	1,6
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.20

OFFERING SERVICES TO CUSTOMERS

(a) Offering a delivery service to customers

Delivery services	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	48	12,8	36	42,9	39	26,2	45	29,4	168	22,1
No	223	59,6	31	36,9	71	47,6	80	52,3	405	53,3
Not applicable to type of business	103	27,5	17	20,2	39	26,2	28	18,3	187	24,6
TOTAL	374	100	84	100	149	100	153	100	760	100

(b) Offering credit and keeping count of the money owed

Credit and counting	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Do not allow credit	164	43,6	68	80,0	86	57,0	98	63,6	416	54,3
Keeping written records	178	47,3	15	17,7	57	37,8	48	31,2	298	38,9
Idiosyncratic methods	34	9,0	2	2,4	8	5,3	8	5,2	52	6,8
TOTAL	376	100	85	100	151	100	154	100	766	100

(c) Ways in which informal business owners collect money that is owed to them

Ways of collecting money	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Customers bring money to the business	150	39,9	7	8,2	39	25,8	37	24,0	233	30,4
Respondents or their families go out to collect the money	59	15,7	5	5,9	20	13,2	15	9,7	99	12,9
Invoices and statements	3	0,8	5	5,9	6	4,0	4	2,6	18	2,3
Do not allow credit	164	43,6	68	80,0	86	56,9	98	63,6	416	54,3
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.21

HOW INFORMAL BUSINESS OWNERS PERCEIVE THEIR CUSTOMERS

(a) Informal business owners' perceptions of their average customer

Perceptions	Population group									
	Black		White		Coloured		Indian		TOTAL	
	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd
Poor - rich	2,8	0,7	3,3	0,6	2,9	0,7	3,1	0,6	3,0	0,7
Young - old	2,9	0,9	2,9	0,5	3,0	0,5	2,8	0,5	2,9	0,7
Unskilled - skilled	3,0	0,9	4,0	0,8	3,2	0,8	3,2	0,8	3,2	0,8
Fickle - loyal	2,4	1,1	2,0	1,0	2,4	0,9	2,4	0,8	2,4	1,0
Seeking basics - seeking luxuries	3,3	1,1	3,6	1,3	3,6	1,0	3,0	1,1	3,3	1,1
Small spenders - big spenders	3,3	1,1	3,0	1,1	3,3	0,8	2,9	1,0	3,2	1,0
Buying familiar products - new products	2,6	1,2	2,9	1,3	2,7	1,1	3,0	1,1	2,7	1,2

$\bar{X}$ = mean sd = standard deviation

(b) Factor analysis

Profile of the customers	Factor 1 Type of products customer wants	Factor 2 Socio-economic status of the customer	Factor 3 Loyalty of the customer
Seeking basics - seeking luxuries	0,90		
Poor - rich		0,66	
Unskilled - skilled		0,54	
Fickle - loyal			0,68
Small spender - big spender	0,47		
Familiar products - new products	0,28		

TABLE 3.22

PREDICTORS OF INFORMAL BUSINESS OWNERS' PERCEPTIONS OF TYPE OF PRODUCTS CUSTOMER WANTS, OF CHARACTERISTICS OF CUSTOMERS AND OF CUSTOMERS' LOYALTY

Variables		Type of products customer wants	Socio-economic status of the customer	Loyalty of the customer
Intercept		4,44***	3,30***	1,63***
Type of group area	All population groups			
	White	0,96*		
	Black established	0,72**		
	Black squatter	0,83**		
	Coloured	-0,48**		
	Indian			
Number of years business has been in operation	Unknown		-0,29*	
	1 year or less			
	2 - 3 years			0,10*
	4 - 6 years			
	7 - 10 years			
	11 - 20 years	0,37***		
	21 years or more			
Type of business	Trading: cooking foods	-0,30*		-0,21*
	Trading: other	-0,36***	-0,14**	
	Manufacturing	0,32***		
	Repairs	0,29**		
	Building		0,11***	0,19*
	Arts & crafts	-0,50*		
	Entertainment			
	Transport			
Home language	Afrikaans	1,15***		
	English	0,84***		
	Sotho & related	-0,68**		
	Xhosa			0,31**
	Zulu	-0,53**		
	Other African			
	Indian			
How did you learn to run a business?	Friends & family			0,43***
	Previous employer			
	Self-taught			
	Education and training			
	Childhood experiences	-0,44**		
	Contact with other businesses			
	Professional advice			
	Do not know		-0,84**	
Population group of the majority of customers	Indian			
	Black		-0,16*	0,22**
	White		0,32***	
	Coloured		0,49***	-0,22**
	All	0,20*		0,12*

(continued)

TABLE 3.22 (continued)

Net monthly profit of business	Not indicated			
	R100 or less			
	R101 - 270		-0,09*	
	R271 - 550			0,12**
	R551 - 2 500		-0,10*	
	R2 501 or more	0,26*		
Geographical area	Johannesburg		-0,12*	
	Cape Town	0,59*	-0,32***	
	Port Elizabeth	-0,26*	-0,17**	-0,14**
	Durban			
	Bloemfontein			0,25*
	Newcastle			
	Nelspruit			
	George		-0,36***	0,24**
	Witbank			
	Pietersburg			
	Queenstown			-0,17*
	Harrismith	0,65**		0,47***
	De Aar	-0,81**		-0,39**
	Upington	-0,57**		
	King William's Town		0,79***	0,47***
	Ladysmith			
Population group of respondent	Black			
	White		0,76*	
	Coloured			-0,18*
	Indian			
Sex of respondent - Male		0,13**		
Age at last birthday				
Highest class passed at school			0,06***	
Counting cash on a regular basis		0,17**		
Keeping written records of financial transactions		-0,20***		

***p<0,01 **p<0,05 *p<0,10

TABLE 3.23

FROM WHOM BUSINESS OWNERS WOULD OBTAIN HELP IF A CUSTOMER NEEDED SOMETHING HE/SHE COULD NOT PROVIDE

Who would help if customer needed something?	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Do not know	31	8,2	7	8,2	14	9,3	15	9,7	67	8,8
Respondent himself would take steps to obtain the product	36	9,6	8	9,4	25	16,6	9	5,8	78	10,2
Respondent would refer customer to someone else whom he/she knows well	49	13,0	25	29,4	24	15,9	25	16,2	123	16,1
Respondent would refer customer to another similar business	155	41,2	29	34,1	46	30,5	42	27,3	272	35,5
Respondent would ask a family member for help	17	4,5	-	-	8	5,3	14	9,1	39	5,1
No-one	63	16,8	15	2,0	21	13,9	41	26,6	140	18,3
Problem has never occurred	11	2,9	1	1,2	8	5,3	5	3,3	25	3,3
It is the customer's responsibility to find the product	14	3,7	-	-	5	3,3	3	2,0	22	2,9
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.24

THE WAYS IN WHICH INFORMAL BUSINESS OWNERS COLLECT INFORMATION, OBTAIN ADVICE AND TRAINING THAT THEY NEED FOR THE BUSINESS

Obtaining information, advice and training	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Methods of collecting information										
Information is not needed	103	27,4	23	27,1	58	38,4	38	24,7	222	29,0
Contact with others in similar businesses	42	11,2	11	12,9	9	6,0	8	5,2	70	9,1
Contact with formal businesses or with previous employers	35	9,3	7	8,2	6	4,0	8	5,2	56	7,3
Asking customers	42	11,2	6	7,1	10	6,6	14	9,1	72	9,4
Reading material	11	2,9	6	7,1	11	7,3	27	17,5	55	7,2
Talking to people in the area	18	4,8	5	5,9	18	11,9	28	18,2	69	9,0
Development agencies and banks	14	3,7	4	4,7	8	5,3	5	3,3	31	4,1
Attending meetings	2	0,5	1	1,2	1	0,7	2	1,3	6	0,8
Respondent works it out for him/herself	67	17,8	12	14,1	16	10,6	12	7,8	107	14,0
Government or municipal officials	5	1,3	-	-	1	0,7	-	-	6	0,8
Consulting professional people	10	2,7	3	3,5	3	2,0	-	-	16	2,1
Asking suppliers	10	2,7	2	2,4	8	5,3	8	5,3	28	3,7
Family members or relatives	11	2,9	1	1,2	1	0,7	2	1,3	15	2,0
Training centre	6	1,6	4	4,7	1	0,7	2	1,3	13	1,7
TOTAL	376	100	85	100	151	100	154	100	766	100
(b) Obtaining business advice										
No advice is needed	69	18,4	13	15,3	47	31,1	24	15,6	153	20,0
Others in similar businesses	46	12,2	4	4,7	10	6,6	10	6,5	70	9,1
Formal sector businesses and previous employers	38	10,1	6	7,1	12	8,0	9	5,8	65	8,5
Reading material	3	0,8	-	-	1	0,7	2	1,3	6	0,8
Asking friends, neighbours or customers	19	5,1	4	4,7	10	6,6	23	14,9	56	7,3
Banks, small business advisory services and development agencies	35	9,3	16	18,8	17	11,3	11	7,1	79	10,3
Respondent would work it out for him/herself	60	16,0	11	12,9	29	19,2	20	13,0	120	15,7
Government and municipal officials	2	0,5	-	-	1	0,7	2	1,3	5	0,7
Professional people	19	5,1	12	14,1	13	8,6	3	2,0	47	6,1
Asking suppliers	7	1,9	2	2,4	1	0,7	5	3,3	15	2,0
Asking a family member	56	14,9	14	16,5	9	6,0	45	29,2	124	16,2
Training centre	22	5,9	3	3,5	1	0,7	-	-	26	3,4
TOTAL	376	100	85	100	151	100	154	100	766	100

(continued)

TABLE 3.24 (continued)

Obtaining information, advice and training		Population group									
		Black		White		Coloured		Indian		TOTAL	
		N	%	N	%	N	%	N	%	N	%
(c) Obtaining financial advice											
Do not know		43	11,4	3	3,5	13	8,6	9	6,9	68	9,1
Friends/neighbours/or other business owners		33	8,8	3	3,5	6	4,0	3	2,0	45	6,1
Small business development agencies		44	11,7	6	7,1	10	6,6	5	3,8	65	8,8
No-one		49	13,0	6	7,1	25	16,6	14	10,8	94	12,7
Banks and building societies		71	18,9	37	43,5	55	36,4	7	5,4	170	23,0
Finance is not needed		9	2,4	4	4,7	19	12,6	8	6,2	40	5,4
Family members or relatives		105	27,9	14	16,5	16	10,6	75	58,1	210	28,3
Professionals		9	2,4	12	14,1	7	4,6	8	6,2	36	4,8
Informal money lenders		13	3,5	-	-	-	-	-	-	13	1,8
TOTAL		376	100	85	100	151	100	129	100	741	100
(d) Need for training to:											
(i) Run the business	Yes	125	33,2	19	22,4	23	15,2	13	8,4	180	23,5
	No	251	66,8	66	77,6	128	84,8	141	91,6	586	76,5
TOTAL		376	100	85	100	151	100	154	100	766	100
(ii) Improve the business	Yes	126	33,5	32	37,7	21	13,9	13	8,4	192	25,1
	No	250	66,5	53	62,4	130	86,1	141	91,6	574	74,9
TOTAL		376	100	85	100	151	100	154	100	766	100
(e) Finding out about training											
Do not know		94	25,0	8	9,4	42	27,8	42	27,3	186	24,3
Asking other people		48	12,8	12	14,1	12	8,0	23	14,9	95	12,4
Reading material		11	2,9	6	7,1	5	3,3	18	11,7	40	5,2
Business development agencies		23	6,1	5	5,9	21	13,9	6	3,9	55	7,2
No-one		29	3,8	7	8,2	5	3,3	4	2,6	45	5,9
Banks and building societies		8	2,1	3	3,5	3	2,0	6	3,9	20	2,6
Professional consultants		12	3,2	3	3,5	1	0,7	4	2,6	20	2,6
Training is not needed		60	16,0	8	9,4	45	29,8	22	14,3	135	17,6
Business training centre		66	17,6	32	37,7	16	10,6	28	18,2	142	18,5
Respondent has already been trained		5	1,3	-	-	-	-	1	0,7	6	0,8
Respondent expressed a need for training but did not know where to go		20	5,3	1	1,2	1	0,7	-	-	22	2,9
TOTAL		376	100	85	100	151	100	154	100	766	100

TABLE 3.25

APPROACH TO BUSINESS, AS REFLECTED IN RESPONSES TO STORIES THAT WERE READ TO INFORMAL BUSINESS OWNERS

Preference expressed for a story describing	N	%
(a) A person who couldn't find work	293	39,9
versus		
A person wanting independence	442	60,1
TOTAL	735	100
(b) A person who performs a familiar business task	291	39,2
versus		
A person who finds out the need for product/service	452	60,8
TOTAL	743	100
(c) A person who aims to satisfy basic needs	429	57,8
versus		
A person who aims to make as much profit as possible	313	42,2
TOTAL	742	100
(d) A person who is happy with a small business	359	48,1
versus		
A person who wants to expand a business	387	51,9
TOTAL	746	100
(e) A person who does nothing to enable the business to grow	479	66,6
versus		
A person who actively takes steps to expand the business	240	33,4
TOTAL	719	100
(f) A person who prefers working for someone else	191	26,4
versus		
A person who prefers the challenge of a business	532	73,6
TOTAL	723	100
(g) A person who feels secure with familiar business activities	415	57,2
versus		
A person who is prepared to try something new in business	311	42,8
TOTAL	726	100
(h) A person who feels that the state should create jobs	169	22,8
versus		
A person who feels people should create their own jobs	573	77,2
TOTAL	742	100
(i) A person who thinks that a job gives you status	268	37,9
versus		
A person who thinks that having a business gives you status	440	62,1
TOTAL	708	100

TABLE 3.26

BOOLEAN FACTOR ANALYSIS ON ITEMS ASSESSING SURVIVAL OR ENTREPRENEURIAL APPROACH TO BUSINESS

Items	Factor approach to business
Couldn't find work - wanted independence	*
Doing familiar tasks - finding out customer's needs	*
Feeding and clothing the family - making a large profit	*
Business to remain small - business to expand	*
No steps taken to expand - steps taken to expand business	-
Preference for working as employee - preference for own business	*
Performing familiar tasks - trying out new activities	*
State should create jobs - unemployed people should help themselves	*
Having a job gives status - business gives status	*

* Items loaded on factor

- Items did not load on factor

TABLE 3.27

PREDICTORS OF ENTREPRENEURIAL CHARACTERISTICS OF INFORMAL BUSINESS OWNERS

Variables		Survival versus entrepreneurial characteristics
Intercept		12,36***
Type of group area	All population groups	
	White	-0,84**
	Black established	
	Black squatter	1,05*
	Coloured	-0,75*
	Indian	-0,83*
Type of site	Indoor residence	
	Semi-formal premises	
	Outdoors - street	-0,79***
	Outdoors - residence	
	Other arrangements	
Number of years business has been in operation	Unknown	-1,66***
	1 year or less	
	2 - 3 years	
	4 - 6 years	
	7 - 10 years	0,54**
	11 - 20 years	0,48*
	21 years or more	0,56**
Type of business	Trading : prepared foods	-0,63*
	Trading : Other	
	Services	
	Manufacturing	
	Repairs	-0,52**
	Building	
	Arts and crafts	1,55***
	Entertainment	
	Transport	

***p< 0,01; **p< 0,05; *p< 0,10

(continued)

TABLE 3.27 (Continued)

Variables		Survival versus entrepreneurial characteristics
Home language	Afrikaans	
	English	
	Sotho and related	-0,81*
	Xhosa	
	Zulu	
	Other African	-0,84*
Net profit of business	Not indicated	-0,34*
	R100 or less	
	R101 - 270	
	R271 - 550	
	R551 - 2 500	
	R2500 or more	
Geographical district	Johannesburg	
	Cape Town	0,54**
	Port Elizabeth	
	Durban	0,58**
	Bloemfontein	0,79*
	Newcastle	
	Nelspruit	2,10***
	George	
	Witbank	-0,83**
	Pietersburg	
	Queenstown	
	Harrismith	1,22**
	De Aar	
	Upington	
	King William's Town	-3,81***
	Ladysmith	
Sole owner of the business		0,27*
% Contribution of business to family income		0,01*
Age at last birth		-0,03***
Exposure to business in childhood		0,16*
Previous work experience		0,67***
Keeping written records of financial transactions		0,28***

***p< 0,01; **p< 0,05; *p< 0,10

TABLE 3.28

THE INFORMAL BUSINESS OWNERS' OPINIONS REGARDING WHAT IS BEST AND WHAT IS WORST ABOUT WORKING FOR YOURSELF ACCORDING TO THEIR POPULATION GROUP

Opinions	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) What is the best about working for yourself?										
Being able to earn more money	84	22,3	11	12,9	18	11,9	18	11,7	131	17,1
Independence (e.g. no boss)	151	40,1	27	31,8	87	57,6	73	47,4	338	44,1
Convenience of working from home	23	6,1	23	27,1	20	13,3	36	23,4	102	13,3
Self-reliance (e.g. take responsibility)	48	12,8	2	2,4	6	4,0	11	7,1	67	8,8
Survival is possible	23	6,1	-	-	4	2,7	2	1,3	29	3,8
Helping the community	6	1,6	-	-	-	-	2	1,3	8	1,0
Challenge and enjoyment	13	3,5	-	-	3	2,0	3	2,0	19	2,5
Sense of achievement	10	2,7	18	21,2	7	4,6	6	3,9	41	5,4
Other	1	0,3	3	3,5	2	1,3	2	1,3	8	1,0
Nothing/do not know	17	4,5	1	1,2	4	2,7	1	0,7	23	3,0
TOTAL	376	100	85	100	151	100	154	100	766	100
(b) What is the worst about working for yourself?										
Obtaining and keeping customers	51	13,6	3	3,5	8	5,3	5	3,3	67	8,8
People who do not pay	41	10,9	-	-	12	8,0	7	4,6	60	7,8
Income insufficient or not steady	79	21,0	20	23,5	32	21,2	35	22,7	166	21,7
Too time consuming (e.g. working long hours)	24	6,4	24	28,2	36	23,8	30	19,5	114	14,9
Unsatisfactory conditions (e.g. premises, robberies)	23	6,1	4	4,7	7	4,6	8	5,2	42	5,5
Work is too demanding	33	8,8	14	16,5	14	9,3	22	14,3	83	10,8
Too much responsibility and pressure	18	4,8	6	7,1	13	8,6	18	11,7	55	7,2
Forced by circumstances into business	5	1,3	1	1,2	5	3,3	3	2,0	14	1,8
Negative attitude of the community	5	1,3	-	-	-	-	1	0,7	6	0,8
Problems with employees	3	0,8	-	-	-	-	-	-	3	0,4
Difficulties in running business	22	5,9	-	-	4	2,7	4	2,6	30	3,9
No external source of help	6	1,6	1	1,2	-	-	3	2,0	10	1,3
There is nothing bad	41	10,9	12	14,1	15	9,9	14	9,1	82	10,7
Do not know	25	6,7	-	-	5	3,3	4	2,6	34	4,4
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.29

FUTURE PLANS OF INFORMAL BUSINESS OWNERS ACCORDING TO POPULATION GROUP

Whether or not they were planning to stay on in the business	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Planning to stay on										
Yes	323	87,2	78	91,8	137	90,7	127	82,5	670	87,5
No	48	12,8	7	8,2	14	9,3	27	17,5	96	12,5
TOTAL	376	100	85	100	151	100	154	100	766	100
Whether or not informal business owners would accept an offer of a good job with a steady income										
(b) Accept steady job										
Yes	100	26,6	15	17,7	37	24,5	32	20,8	184	24,0
No	276	73,4	70	82,3	114	75,5	122	79,2	582	76,0
TOTAL	376	100	85	100	151	100	154	100	766	100
Definite plans for expanding the business in the next three years										
(c) Plans for expansion										
Yes	197	52,4	33	38,8	55	36,4	41	26,6	326	42,6
No	179	47,6	52	61,2	96	63,6	113	73,4	440	57,4
TOTAL	376	100	85	100	151	100	154	100	766	100

TABLE 3.30

REASONS GIVEN BY INFORMAL BUSINESS OWNERS FOR WANTING TO REMAIN IN OR TO LEAVE THE BUSINESS

Wanting to remain/leave the business	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Positive reasons										
Sole source of income	70	18,6	28	32,9	38	25,2	21	13,6	157	20,5
Enjoyment of business	50	13,3	24	28,2	41	27,2	52	33,8	167	21,8
Respondent wants business to expand	70	18,6	9	10,6	14	9,3	7	4,6	100	13,1
Independence and self-reliance	51	13,6	5	5,9	13	8,6	13	8,4	82	10,7
The business is growing	20	5,3	4	4,7	9	6,0	10	6,5	43	5,6
Convenience of working from home	8	2,1	3	3,5	3	2,0	9	5,8	23	3,0
Old age or disability	15	4,0	-	-	9	6,0	6	3,9	30	3,9
Serving the community	6	1,6	1	1,2	3	2,0	2	1,3	12	1,6
Financial considerations	18	4,8	4	4,7	2	1,3	9	5,8	33	4,3
Too many unemployed people	12	3,2	-	-	1	0,7	-	-	13	1,7
Subtotal	320	85,1	78	91,8	133	88,1	129	83,8	660	86,2
(b) Negative reasons										
Respondent is planning to study	3	0,8	-	-	3	2,0	-	-	6	0,8
Poor health or too old to run business	5	1,3	-	-	6	4,0	1	0,7	12	1,6
Respondent wants full-time employment	5	1,3	-	-	1	0,7	7	4,6	13	1,7
Respondent wants to start another different business	6	1,6	1	1,2	-	-	2	1,3	9	1,2
Respondent is moving to another area	1	0,3	2	2,4	-	-	3	2,0	6	0,8
Financial reasons	8	2,1	1	1,2	-	-	3	2,0	12	1,6
Subtotal	28	7,4	4	4,7	10	6,6	16	10,4	58	7,6
(c) Neutral reasons										
Do not know/can't answer	21	5,6	3	3,5	4	2,7	7	4,6	35	4,6
Cannot predict the future	7	1,9	-	-	4	2,7	2	1,3	13	1,7
Subtotal	28	7,5	3	3,5	8	5,3	9	5,8	48	6,3
TOTAL	376	100	85	100	151	100	154	100	766	100

FIGURE 3.1
HAVE YOU RECEIVED ANY OTHER EDUCATION OR TRAINING?

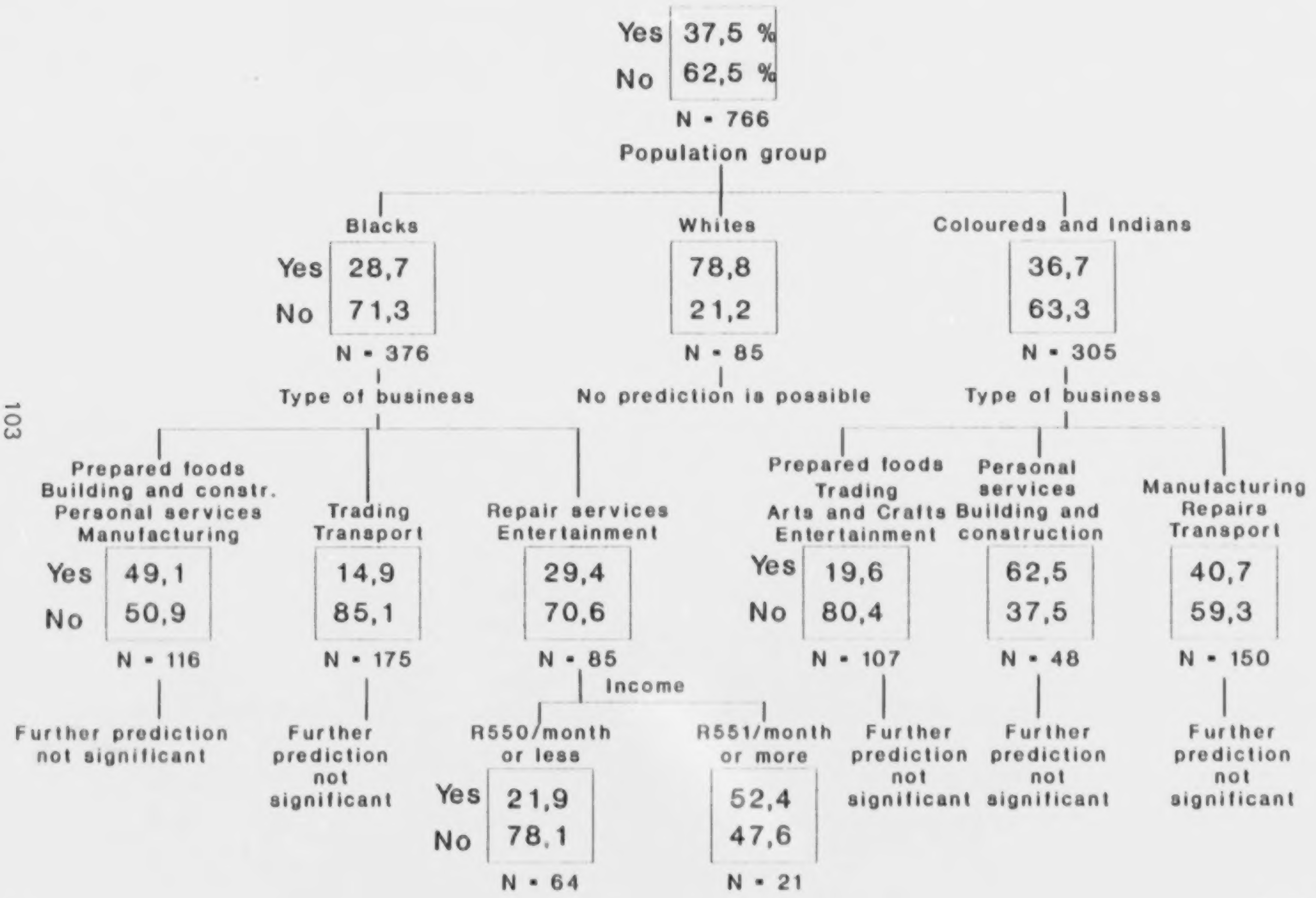

Yes 37,5 %
No 62,5 %
N = 766
Population group
Blacks
Yes 28,7
No 71,3
N = 376
Type of business
Whites
78,8
21,2
N = 85
No prediction is possible
Coloureds and Indians
36,7
63,3
N = 305
Type of business
Prepared foods
Building and constr.
Personal services
Manufacturing
Yes 49,1
No 50,9
N = 116
Further prediction not significant
Trading
Transport
14,9
85,1
N = 175
Further prediction not significant
Repair services
Entertainment
29,4
70,6
N = 85
Income
R550/month or less
Yes 21,9
No 78,1
N = 64
R551/month or more
52,4
47,6
N = 21
Prepared foods
Trading
Arts and Crafts
Entertainment
Yes 19,6
No 80,4
N = 107
Further prediction not significant
Personal services
Building and construction
62,5
37,5
N = 48
Further prediction not significant
Manufacturing
Repairs
Transport
40,7
59,3
N = 150
Further prediction not significant

FIGURE 3.2
BUSINESS IS SOLE SOURCE OF INCOME

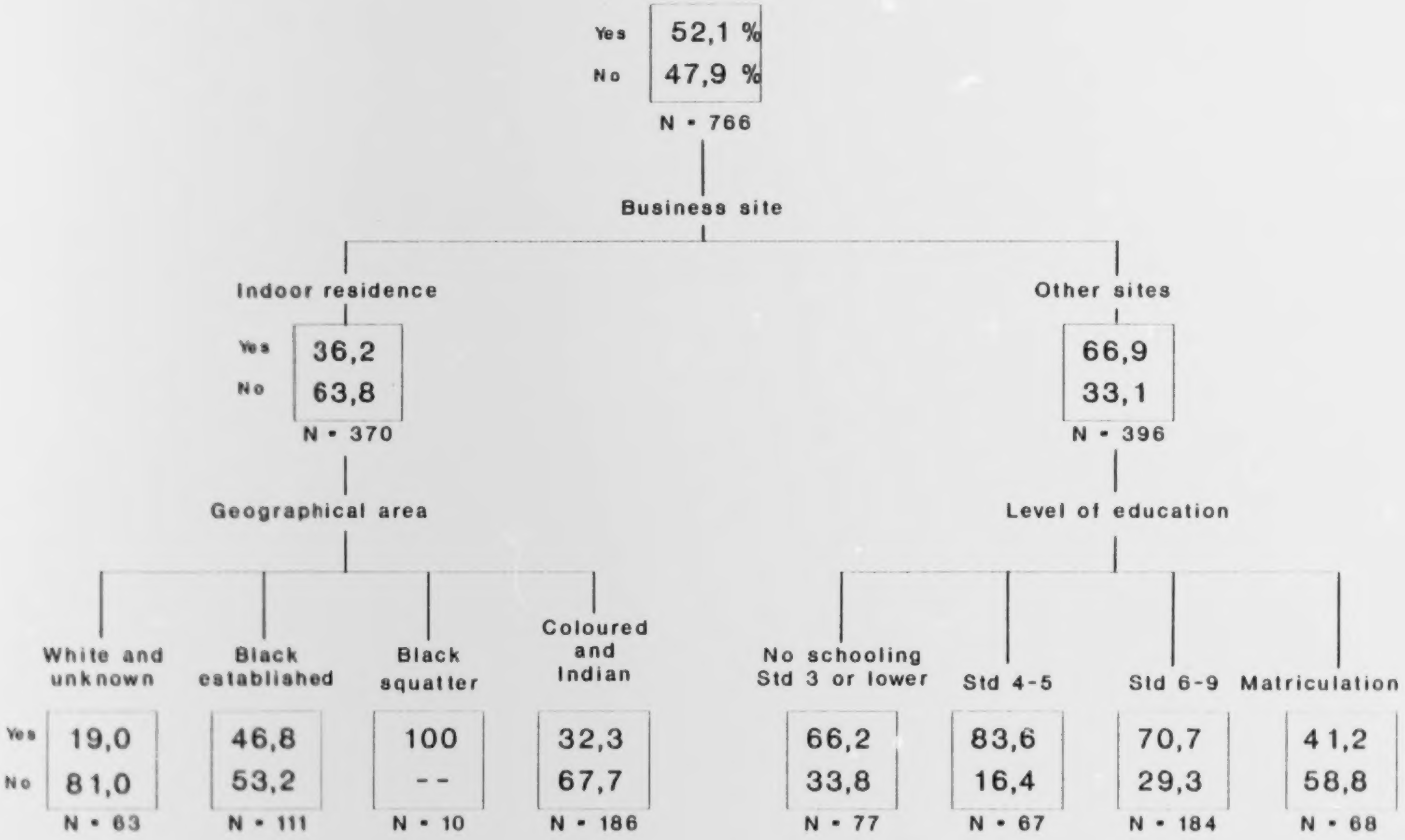

Yes 52,1 %
No 47,9 %
N = 766
Business site
Indoor residence
Yes 36,2
No 63,8
N = 370
Other sites
66,9
33,1
N = 396
Geographical area
Level of education
White and unknown
Yes 19,0
No 81,0
N = 63
Black established
46,8
53,2
N = 111
Black squatter
100
--
N = 10
Coloured and Indian
32,3
67,7
N = 186
No schooling Std 3 or lower
66,2
33,8
N = 77
Std 4-5
83,6
16,4
N = 67
Std 6-9
70,7
29,3
N = 184
Matriculation
41,2
58,8
N = 68

FIGURE 3.3
BUSINESS IS SOLE SOURCE OF INCOME

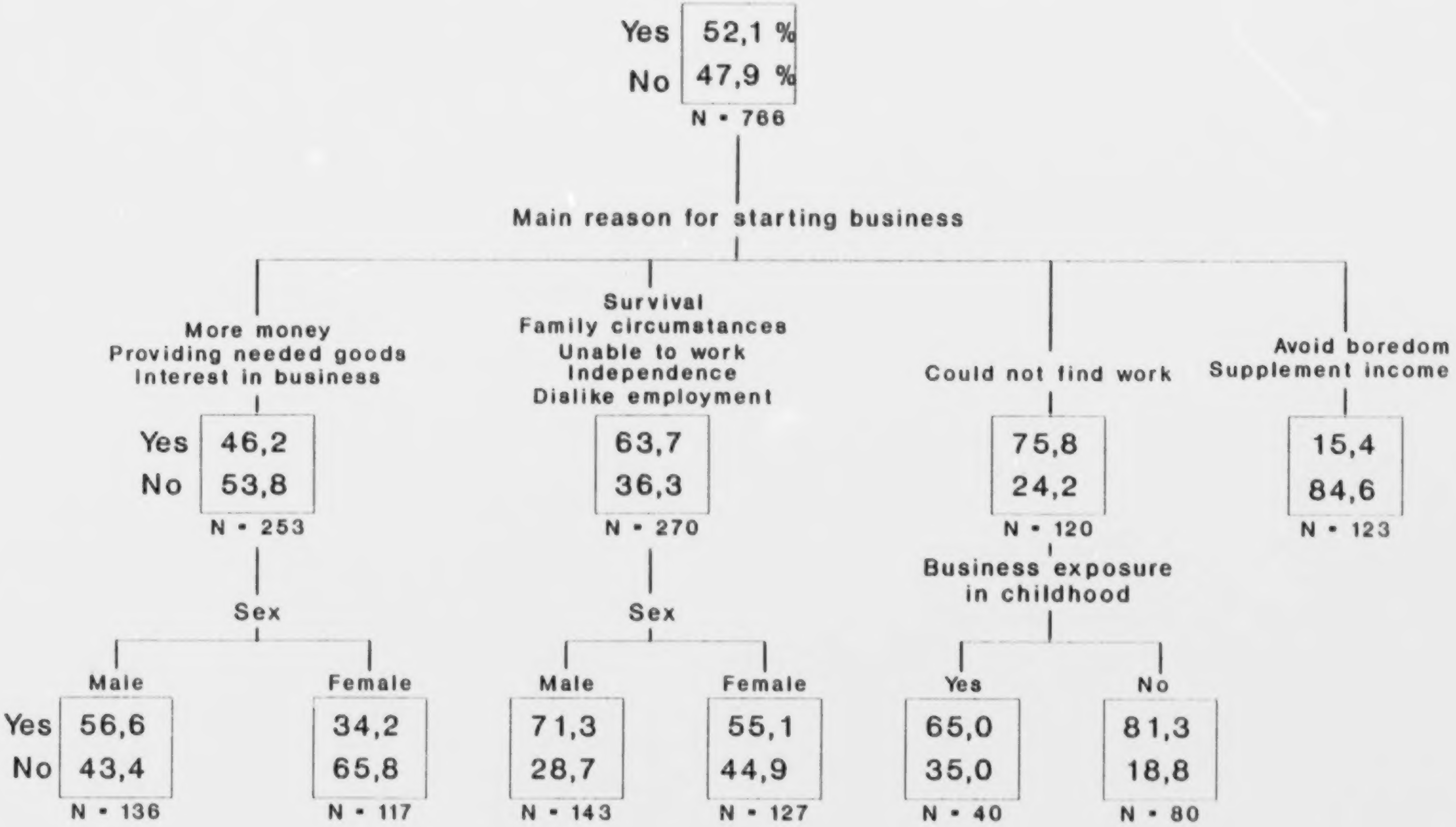

Yes 52,1 %
No 47,9 %
N = 766
Main reason for starting business
More money
Providing needed goods
Interest in business
Yes 46,2
No 53,8
N = 253
Survival
Family circumstances
Unable to work
Independence
Dislike employment
63,7
36,3
N = 270
Could not find work
75,8
24,2
N = 120
Avoid boredom
Supplement income
15,4
84,6
N = 123
Sex
Male
Yes 56,6
No 43,4
N = 136
Female
34,2
65,8
N = 117
Sex
Male
71,3
28,7
N = 143
Female
55,1
44,9
N = 127
Business exposure
in childhood
Yes
65,0
35,0
N = 40
No
81,3
18,8
N = 80

FIGURE 3.4

DETERMINED NEED FOR PRODUCT/SERVICE

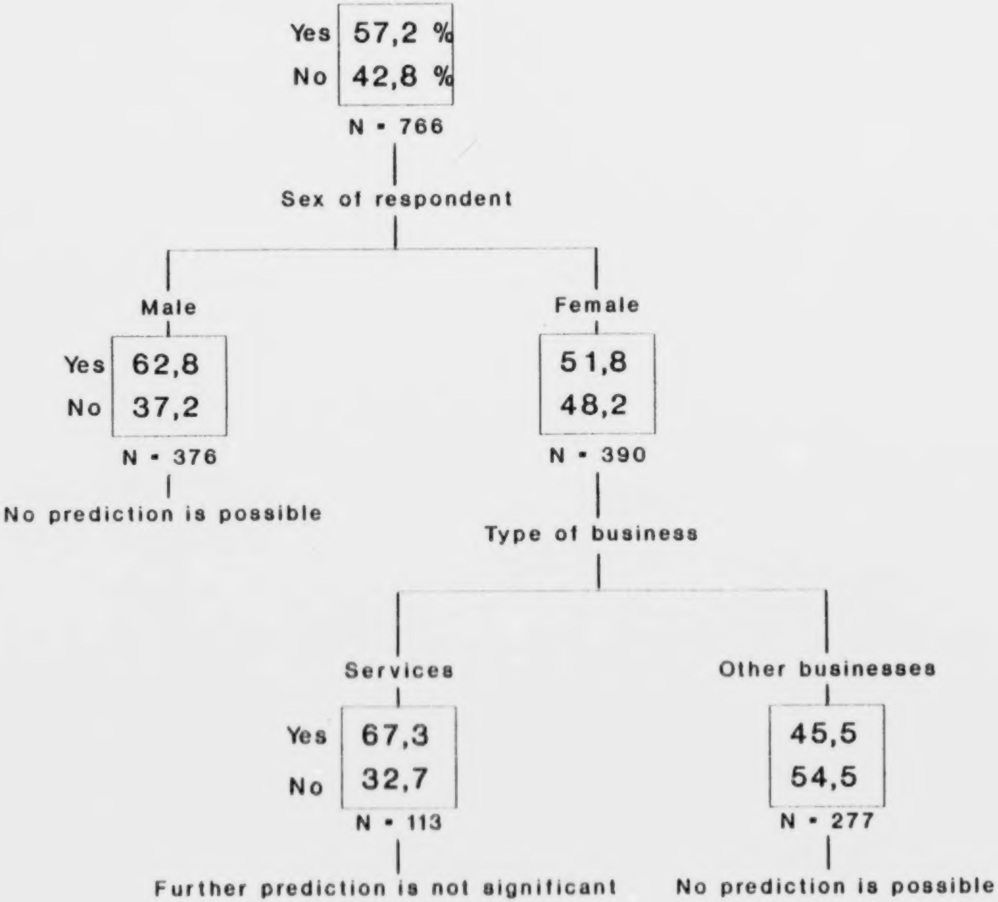

Yes 57,2 %
No 42,8 %
N = 766
Sex of respondent
Male
Yes 62,8
No 37,2
N = 376
No prediction is possible
Female
51,8
48,2
N = 390
Type of business
Services
Yes 67,3
No 32,7
N = 113
Further prediction is not significant
Other businesses
45,5
54,5
N = 277
No prediction is possible

FIGURE 3.5
DO YOU NEED TRAINING TO RUN THE BUSINESS?

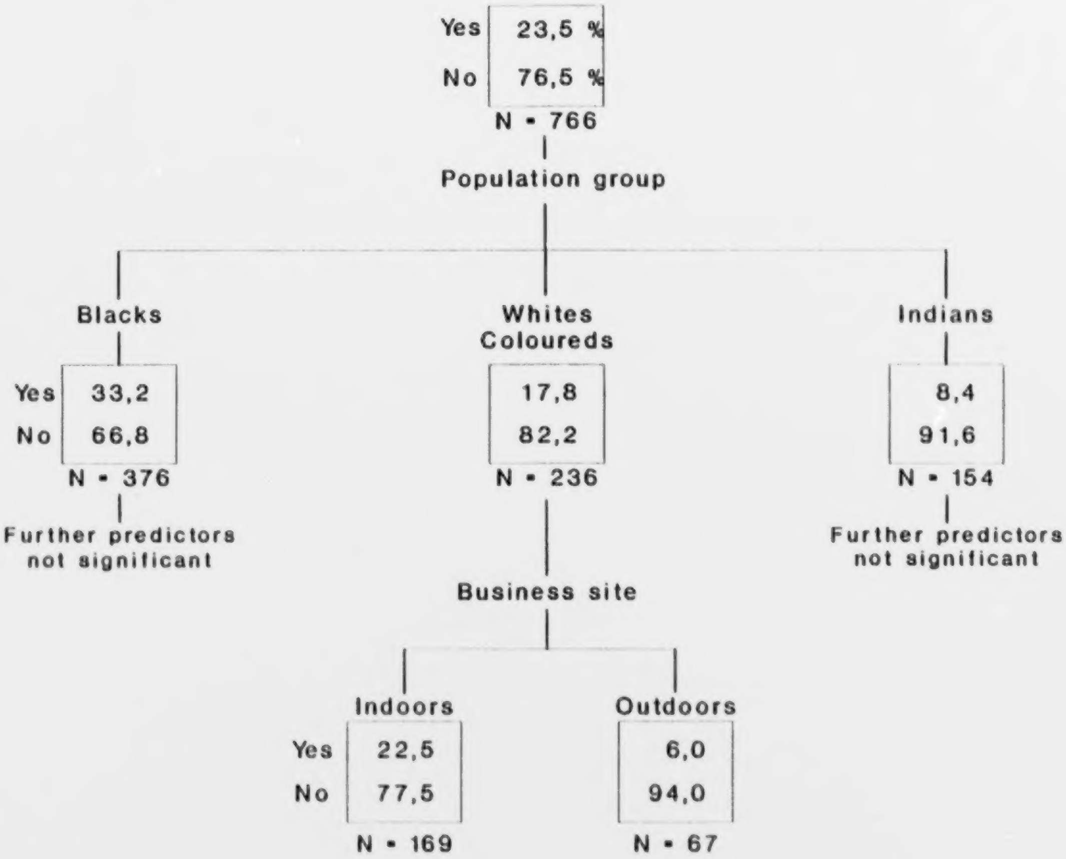

Yes 23,5 %
No 76,5 %
N = 766
Population group
Blacks
Yes 33,2
No 66,8
N = 376
Further predictors not significant
Whites Coloureds
17,8
82,2
N = 236
Business site
Indoors
Yes 22,5
No 77,5
N = 169
Outdoors
6,0
94,0
N = 67
Indians
8,4
91,6
N = 154
Further predictors not significant

FIGURE 3.6
DO YOU NEED TRAINING TO IMPROVE THE BUSINESS?

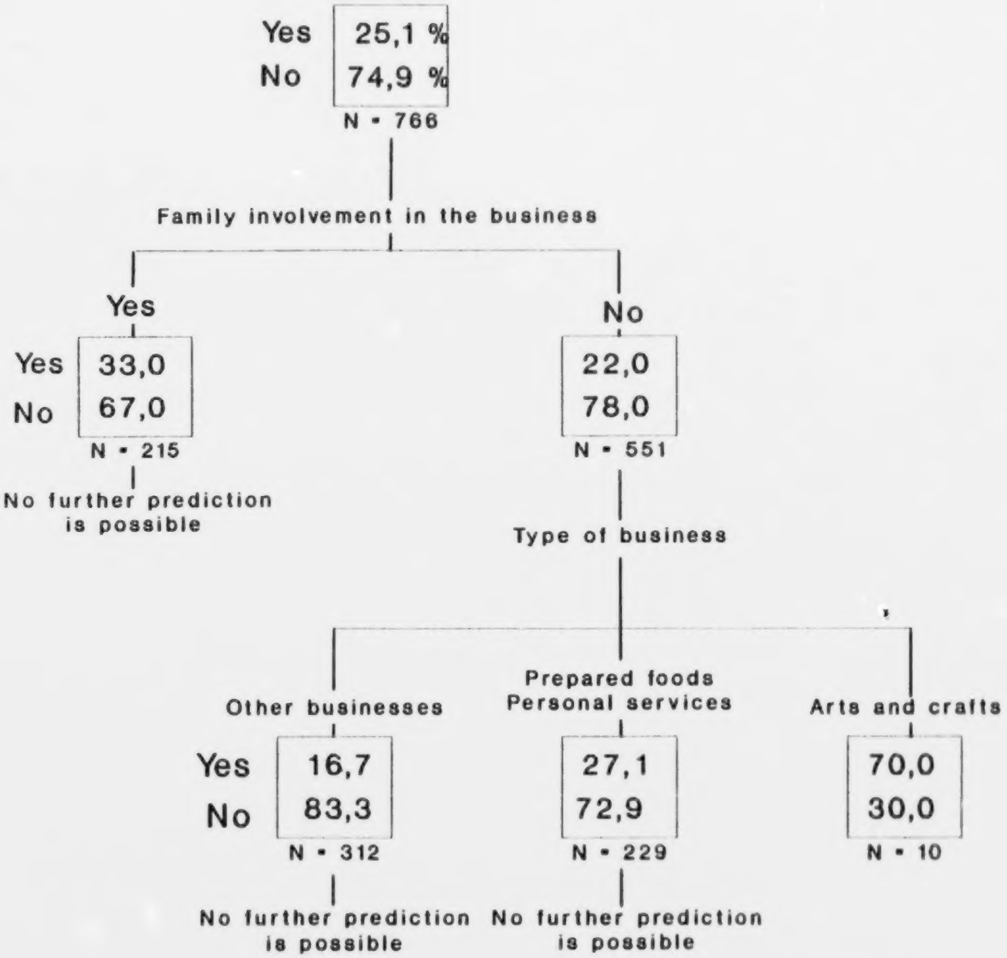
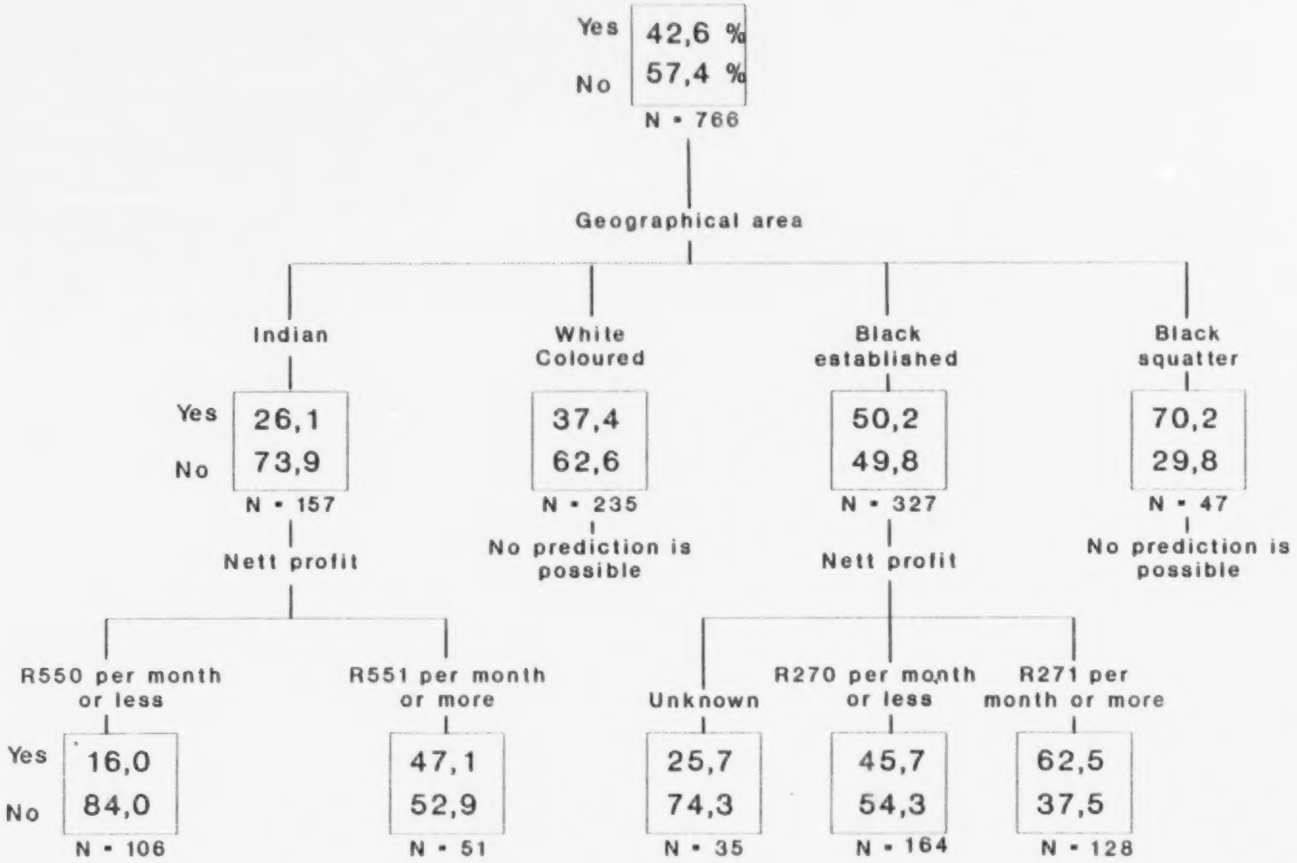

Yes 25,1 %
No 74,9 %
N • 766
Family involvement in the business
Yes
Yes 33,0
No 67,0
N • 215
No further prediction is possible
No
22,0
78,0
N • 551
Type of business
Other businesses
Yes 16,7
No 83,3
N • 312
No further prediction is possible
Prepared foods Personal services
27,1
72,9
N • 229
No further prediction is possible
Arts and crafts
70,0
30,0
N • 10

FIGURE 3.7
DEFINITE PLANS TO EXPAND BUSINESS


Yes 42,6 %
No 57,4 %
N = 766
Geographical area
Indian
Yes 26,1
No 73,9
N = 157
Nett profit
R550 per month or less
Yes 16,0
No 84,0
N = 106
R551 per month or more
47,1
52,9
N = 51
White Coloured
37,4
62,6
N = 235
No prediction is possible
Black established
50,2
49,8
N = 327
Nett profit
Unknown
25,7
74,3
N = 35
R270 per month or less
45,7
54,3
N = 164
R271 per month or more
62,5
37,5
N = 128
Black squatter
70,2
29,8
N = 47
No prediction is possible

CHAPTER 4

CUSTOMERS OF INFORMAL BUSINESSES

4.1 INTRODUCTION

In spite of a highly sophisticated and modern formal economy in which formal businesses offer a wide range of goods and services, the business owners in the informal sector still manage to attract customers. In the previous chapter we noted the ways in which informal business owners set about obtaining customers and how they relied on building up a reputation in the community to do so. We also noted that, in general, they were satisfied with the support they received from the community. They were also satisfied with the support they received from their customers.

In this chapter, the focus will be on these customers who are actually buying from informal businesses and their reasons for supporting this sector. In this way, the needs of customers can be taken into account when developing training guidelines.

4.2 AIMS OF THE STUDY AS SPECIFICALLY APPLIED TO CUSTOMERS OF INFORMAL BUSINESSES

This part of the study therefore aimed:

- To give a biographical description of customers buying from informal sector businesses.
- To give a description of the type of goods and services they were buying from these businesses.
- To explore the reasons why they support the informal sector.
- To examine their approach to the need for legal protection when entering into business transactions.
- To use this information to indicate how training to encourage the development of the informal sector can take the customers' needs into account.

4.3 BIOGRAPHICAL DESCRIPTION OF THE CUSTOMERS

The customers for this part of the study were obtained at the sites where interviews were being held with informal business owners. In other words, these customers were in the process of, or had just completed a transaction with an informal business owner when they were approached by the fieldworker to answer some questions. As indicated in Chapter 1, 392 interviews were held with this group of respondents. The geographical districts (Table 4.1) from which they were obtained are therefore the same as those from which informal business owners were obtained. White customers were interviewed at white informal businesses, black customers at black ones, etcetera.

Regarding biographical variables, there were more female (61 %) than male (39 %) customers that participated in the study (Table 4.2a), possibly because interviews took place during working hours. As far as the age of the customers is concerned, the respondents came from all age groups. However, most customers were relatively young (Table 4.2b) since 81 % were aged 43 years or younger and, in general, they were younger than the business owners whose businesses they were supporting (see Chapter 3). The youngest customer was 15 years of age, whilst the oldest was 78 years old. Their level of education (Table 4.2c) tended, overall, to be higher than that of the informal business owners whom they were supporting (see Chapter 3), but among the black customers, a large group of respondents (29 %) had received schooling at a level of standard five or lower, if they had received any schooling at all.

Regarding their monthly income (Table 4.3) a large group of respondents (28 %) indicated that they or their families did not receive a regular income, either because they or the breadwinners of the family were unemployed at the time of the study or else because they were casual labourers. This again applied particularly to the black respondents who were also earning less than respondents in other population groups generally and less than the white customers in particular. The spending power of black customers using the informal sector was therefore lower than that of respondents in other population groups in general and white respondents in particular. This lower spending power has an effect on the type of informal businesses that can prosper within a given community and the type of goods and services that are required.

4.4 TYPE OF INFORMAL BUSINESSES FROM WHICH THE CUSTOMERS WERE BUYING

This difference in purchasing power between customers in different population groups is reflected in the type of business they were supporting (Table 4.4). Both business sites and actual type of business varied, depending on the population group of the customer.

Regarding business sites, white (69 %) and Indian (71 %) customers were highly likely to have been found in businesses being run from inside the residences of informal business owners. Whites were also found in semi-formal business premises (14 %) such as *"hives of industry"* and rented rooms. Black customers, on the other hand were likely to have been found supporting businesses being run from back-yards (23 %), from street pavements (23 %) and from private residences (21 %), whilst coloured customers were also found supporting businesses in private residences (36 %), in back-yards (16 %) and in semi-formal premises (16 %).

As far as the type of businesses the customers were supporting is concerned, differences between the population groups of the customers were again evident. Black and coloured respondents were buying more basic products, Indians and whites were buying other products. Thus black customers were found at businesses of hawkers (23 %), those selling food and groceries (15 %) and those offering beauty and hair care products and services (11 %). The white customers, on the other hand, were found at arts and crafts (19 %), clothing and dressmaking (14 %) and hawking (11 %) businesses. Coloured respondents were patronising hawking (24 %), food and groceries (11 %) and clothing and dressmaking (11 %) businesses, while Indian respondents were patronising clothing and dressmaking (25 %), hawking (18 %), motor car repair and accessories (14 %) and electrical repair (9 %) businesses.

For further data analysis, these businesses were divided into three categories, namely trade, manufacturing and services (Table 4.4c).

4.5 TYPE OF GOODS AND SERVICES CUSTOMERS HAD BOUGHT FROM THE INFORMAL SECTOR IN THE PAST YEAR

In addition to determining the type of businesses the customers were frequenting at the time of the interview, respondents were also asked to indicate the type of goods and services they had bought from the informal sector during the year prior to the interview.

Regarding the goods they had bought (Table 4.5a), fruit and vegetables (36 %), groceries, food and drink (24 %) and clothing and wearing apparel (19 %) were the most frequently purchased items from the informal sector. Not surprisingly, the black respondents were more likely to have purchased basic goods, while the white respondents had purchased other types of goods. Thus, while most products bought from informal businesses by black respondents were fruit, vegetables, food and groceries (67 %), as well as clothing (17 %), a large group of products bought by white respondents (21 %) were foods that had been prepared by the informal business owner such as home baked cakes and fast foods.

As far as use made of informal services are concerned, in general, building and repair services were most frequently used (Table 4.5b). Building, household repairs and painting constituted 24 % of services bought from the informal sector, shoe repairs a further 15 % and motor car repairs 13 %. A large proportion (35 %) of services that had been bought by Indian respondents were motor car repair services, while a large proportion of services purchased by blacks from the informal sector were building (25 %) and shoe repair services (21 %).

On the other hand as many as 20 % of the respondents indicated that they had not bought any services at all from the informal sector. This applied particularly to white respondents, since 41 % of them had not bought any services from the informal sector during the past year.

Buying ready made products was therefore more popular than buying services. However, the type of services that customers did buy from the informal sector were likely to be relatively expensive if they are bought from the formal sector, since qualified or skilled people provide these services. For example, building and car repairs are likely to be costly if purchased formally.

The risk taken by customers when buying services from the informal sector is that poorer quality services will be obtained, since this often means that unqualified people are doing the work. However a lack of formal qualifications does not always mean that the job will not be properly done. Training to acquire specific skills that can be used for offering services in informal businesses is important, particularly if training can be presented in modular form. Training in quality control over goods and services is also an important consideration, so that the customer using informal sector products and services runs less of a risk of obtaining work of a lower standard. However, a trade off is evident here. The customer takes the risk of buying services at a cheaper price which may be of an inferior standard to those offered by qualified people in the formal sector. People who have received at least some training and who can build on this training through the use of modular courses are likely to run businesses that are less risky for the customer.

4.6 REASONS FOR SUPPORTING THE INFORMAL SECTOR

The finding that customers prefer to buy ready made goods rather than services from the informal sector needs further exploration. Perhaps the reasons can be found by examining why people actually supported this sector. When asked this question (Table 4.6), the customers gave the following main reasons for doing so: convenience (including both convenient location of the business and hours of opening) (28 %), good quality products and services (30 %) and lower prices (22 %). The white respondents (61 %) were highly likely to stress the good quality of products and services of this sector, suggesting that quality control among white informal businesses is more likely to be of a higher standard, perhaps because white owners (Chapter 3) are more likely to have received some training to competently make the product or service on which the business is based. This opinion regarding the high quality of goods and services, generally, is encouraging. It indicates that existing skills can be built on and enhanced through training.

4.6.1 Comparison between the informal and the formal sectors

To further explore the reasons why the customers support the informal sector, a series of statements describing a business was read to them. Then they were asked to say whether informal or formal businesses were more like the characteristic described in each statement. For example they were asked: *"In your opinion, which businesses are more likely to have inflated prices, informal or formal businesses?"* Altogether they were asked to make 25 such choices, distinguishing informal from formal businesses (Table 4.7; Figure 4.1). From responses to this type of question the strengths and weaknesses of the informal sector could be deduced from the point of view of the customer. As far as the strengths of the informal sector are concerned, the following features stood out from the customers' selection:

- cheaper prices,
- better customer treatment,
- more convenient hours,
- being served in one's own language,
- being given equal treatment irrespective of race,
- being given credit,
- being offered a personalised service and
- having goods manufactured according to one's own specifications.

These strengths all focus on the customer as an individual with important needs that the business owner should take into account. As we pointed out in Chapter 3, most informal business owners believe that they are already doing this. A culture of caring for the customer is building up in the informal sector. Training can add to the development of this culture by stressing the importance of good customer relations and of offering a personalised service to the customer.

The weaknesses of the informal sector, from the customers' point of view, were the following:

- These businesses have prices that differ from day to day and from customer to customer.
- They tend to have a limited choice of goods, to run out of stock and they are less likely to keep the goods the customer wants in stock.
- They are less likely to be tidy and hygienic.
- They are less likely to be able to guarantee the quality of their products and the quality of their workmanship.
- They are less likely to be efficiently run.
- They are also less likely to offer a delivery service.

These weaknesses are directly related to the types of problems that informal business owners said they were experiencing (Chapter 3) regarding obtaining goods at cheaper prices, keeping control of stock and keeping records of transactions. They were also related to difficulties experienced in obtaining suitable premises, in obtaining transport for the business and being forced to use inferior tools and equipment.

The development of networks within the community and the establishment of co-operatives, are methods that were previously suggested for helping to overcome these problems. Training and community development go hand in hand and training should focus on the encouragement of the development of community resources to help to support the businesses within them.

The customers themselves, as part of the community, can help business owners to improve their products and services by demanding more guarantees for the quality of products and for higher standards of hygiene and tidiness. Here consumer associations can play an important role, and the development of these associations within the community should be encouraged.

The need for offering training to informal business owners in more efficient methods of stock control, of pricing and costing, of ordering needed products in time by anticipating customers' wants and of displaying goods attractively is again clearly evident. The need to give informal business owners training in standards of hygiene and in tidiness is also apparent. Modules can be developed round each of these needs. In addition, as we shall discuss in a later chapter, municipal officials can also become involved in an education programme for informal business owners.

4.6.2 Different perceptions among customers in different population groups

When comparing the choices made regarding the characteristics of formal or informal businesses (Figure 4.1), respondents in the various population groups gave different types of responses. These differences may reflect varying expectations of customers when patronising informal businesses.

The white respondents stand out as having the most positive picture of informal businesses. In their responses they were more likely than respondents in other population groups to say the following (all percentages given below apply to answers given by white respondents):

- Formal (89 %) rather than informal business (11 %) charge inflated prices.
- Formal (67 %) rather than informal (33 %) business have prices that differ from day to day.
- Although formal businesses were generally regarded as being more tidy and hygienic, more white respondents said that informal businesses are tidier (37 %) and more hygienic (39 %) than customers drawn from other population groups.

- More whites said that the quality of the products (49 %) and of the workmanship (58 %) of informal businesses was more likely to be guaranteed than respondents in other population groups.
- More whites (89 %) said they received better customer treatment from the informal sector and a personalised service (89 %) than members of other population groups.
- Informal (69 %) rather than formal (31 %) business owners ordered goods personally for more white customers.
- Almost all white customers agreed that informal (94 %) rather than formal business owners made goods according to the customers specifications.

On the other hand, Indian customers were most likely to have a more negative image of informal businesses than the other population groups, possibly because small businesses in the formal sector rather than informal ones are highly valued in Indian communities. Networks develop round small formal, rather than informal businesses (Godsell 1990).

The reasons that the informal business owners gave for starting their business, as noted in Chapter 3, are highly relevant to the way in which the customers assessed their strengths and weaknesses. The more positive image that the white respondents projected of informal businesses is directly related to these reasons. White informal business owners (Table 3.10) were found to be likely to enter into business for different reasons to those in other population groups namely, to avoid boredom (20 %), to supplement the family income (19 %) to be independent (17 %) and to express an interest in business (13 %). Very few white informal businesses are entered into as survival strategies. White informal business owners have more resources (both internal, as far as education and training are concerned, and external, as far as access to finance and transport are concerned) on which to build their businesses. They can therefore offer their customers a more personalised service or better products.

These strengths of white informal businesses indicate the type of development that can take place within the informal sector. The courage and entrepreneurial flair is already present among informal business owners generally and particularly among those in black *"squatter"* areas. (See Chapter 3.) Training can help this entrepreneurial flair to emerge, once the businesses are run more efficiently.

4.6.3 Factors accounting for differences in perceptions

In order to determine which variables, in addition to population group, influenced the customers to describe an informal business in a certain way, a Boolean factor analysis and regression analyses were completed. A Boolean factor analysis indicates which sets of discrete responses group together to

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form factors, while a regression analysis indicates which independent variables significantly predict the outcome of a dependent variable, in this case, each factor obtained from the Boolean factor analysis.

The Boolean analysis indicated that the respondents' choices regarding differences between formal and informal businesses grouped together to form seven factors. These factors indicate that

- informal businesses have fluctuating prices,
- they have good customer relations,
- they have a limited range of goods,
- they offer a personalised service,
- they have lower standards,
- they offer customers credit and
- they offer a limited range of services (Table 4.8).

The factors point to the same strengths and weaknesses that were previously discussed.

The regression analyses used each of these seven factors as dependent variables, and population group, age, sex, level of education and income of the customer as well as geographical region where the interview took place, the respondent's desire for recourse to the law and his or her altruistic approach to informal businesses as explained later in this chapter, as independent variables.

These analyses (Table 4.9) showed that both population group and geographical region influenced the way in which customers perceive informal business. The effects of population group have already been discussed. These are again evident in the regression analysis. However, it is interesting to note (Table 4.9) that population group was not a significant predictor of perceiving that the informal sector offers a limited range of goods or of perceiving that informal businesses are more likely to offer credit. All population groups were equally likely to hold these views. As far as geographical district is concerned, relatively few significant predictors were found. Perhaps the most important was that customers in larger centres thought that informal business owners were less likely to give them credit. Another variable, altruism (discussed in the following section) had an influence on two of the dependent variables. The more altruistic the approach of the customer to informal businesses, the more likely he or she was to agree that informal businesses had a limited range of goods and that they offered limited services.

This statistical exercise indicates that regional differences need to be taken into account in developing training programmes. Customers in different regions have different expectations of businesses in the informal sector. Altruism too, has to be taken into account.

4.7 ALTRUISTIC CONSIDERATIONS INFLUENCING THE CUSTOMERS' DECISION TO SUPPORT THE INFORMAL SECTOR

In addition to personal benefits obtained from supporting an informal business, other reasons such as *"... keeping money and buying power in the community"*, may have also had an influence. These reasons can be regarded as altruistic ones.

In order to determine the extent to which customers supported informal businesses for altruistic reasons, each respondent was asked to rate seven items indicative of altruism on a five point scale regarding the effect that this item had on the decision to support informal businesses where 1 = not at all and 5 = very much. The following items (Table 4.10) were included as reasons for supporting informal businesses.

- Supporting the informal sector to keep money and buying power in the community.
- Supporting people who are trying to create their own jobs.
- Supporting businesses of one's own population group.
- Alleviating unemployment.
- Helping the country's economy to grow.
- Helping people to survive during hard times.
- Provision of needed goods and services at affordable prices.

The ratings of the respondents indicated that altruism was indeed an important consideration influencing the customer's decision to support the informal sector. Relatively high means were obtained on all items (Table 4.10a).

A factor analysis (Table 4.10b) indicated that all the items loaded on one factor, which was labelled *"altruism"*. This factor was used as the dependent variable in a regression analysis (Table 4.11). This analysis indicated that both biographical variables and beliefs about the informal sector were related to altruism. Customers who were supporting manufacturing businesses were less likely and those who were supporting service businesses were more likely to do so for altruistic reasons. Blacks were more likely and whites were less likely to support informal businesses for altruistic reasons. Respondents in Cape Town and Port Elizabeth, where there has been a large amount of migration from rural areas, were more likely to support the informal sector for altruistic reasons. Respondents in King William's Town, which is a relatively stable area from the point of view of migration, were less likely to do so. The more likely the customer was to think that informal businesses offered a limited range of goods and limited services the higher the altruism score. If customers thought that informal businesses offer a personalised service, they were also more likely to support these businesses for altruistic reasons.

This altruistic approach is important because it shows that goodwill exists among customers towards informal businesses. As far as training is concerned, this goodwill can be built on to encourage further development of the sector. The customers can be relied on to support informal businesses. Supportive networks within the community can be built up to ensure the survival of informal businesses.

4.8 THE CUSTOMERS' PERCEPTIONS REGARDING THE NECESSITY FOR HAVING ACCESS TO LEGAL PROCEDURES

In spite of this altruism, reality has to be faced. When customers buy from a business, a commercial transaction is taking place. Customers may want to know that they enjoy legal rights and legal protection if they experience any problems when dealing with informal business owners.

Legal protection of transactions may be viewed from two different perspectives. On the one hand, it may be argued that common law in South Africa gives people sufficient protection when entering into contracts with each other. Common law consists of a system of rights and obligations. Both the customer and the business owner have certain rights and obligations to each other when they do business together (De Villiers 1990). Any business transaction is essentially of a contractual nature. The law therefore automatically protects the actors.

On the other hand, it can be argued that all the laws that have developed around commercial transactions and all the laws that have evolved around employment practices are necessary because common law cannot deal with all circumstances. For example, common law protects individuals, but it does not protect collectives. It therefore seems as if communities, trade unions, co-operatives and other collections of people need additional laws to protect their interest (De Villiers 1990). It is for this reason that legislation regarding basic conditions of employment, safety at work, compensation for being injured at work and for collective bargaining for example, have been developed.

De Soto (1989:158) through his research on informality, became convinced that *"...informals suffer not only from their illegality but also from the absence of a legal system that guarantees and promotes their economic efficiency - in other words, of good law"*.

Deregulation that is taking place in South Africa at the present time implies a re-examination of existing legislation, so that the discriminatory effects of this legislation can be removed. For example it is discriminatory against hawkers to expect them to *"move on"* every twenty minutes, because this prevents them from developing more stable businesses. It effectively blocks the ways that the business owner has devised to survive in a harsh economic climate from being fully realised.

On the other hand, informal business owners are just as capable of exploiting their employees as anyone else. They are also just as capable of dealing dishonestly with customers as anyone else. A legal system may be needed to promote the informal sector, while at the same time guaranteeing the rights of customers and employees.

The present process of reviewing the laws affecting the informal sector will need to be taken into account in any training programme.

The customers in this study were asked to give their opinion on legal matters. They were asked to indicate on a five point scale the extent to which they thought it was important to have recourse to legal procedures when choosing to use a formal or an informal business where 1 = not at all important and 5 = very important.

The answers to this question (Table 4.12) indicate that views were polarised on this issue. A large number of black (33 %) and white (33 %) respondents said it was not at all important to have recourse to legal procedures, while an almost equally large group of blacks (30 %) and coloureds (29 %) said it was very important. The Indian respondents, on the other hand, were unlikely to say that recourse to legal procedures is not at all important (12 %); they were far more likely to say that it is very important (40 %).

When looking at the reasons that the respondents gave for their ratings (Table 4.13), it is noteworthy that more people gave reasons indicating that this type of legislation is important (43 %) than those who gave reasons saying it wasn't important (36 %) while a relatively large group (21 %) gave neutral reasons.

Respondents who gave reasons supporting recourse to legal procedures felt that products should be guaranteed, that customers should be protected, that legal action is sometimes necessary and that people need legal rights. On the other hand, those who felt that legislation is not important said so because they believed that ordinary people, who cannot afford lawyers, do not in any case have access to legal procedures, that people usually try to solve problems without taking legal action and that it is important to support the informal sector to enable the business owners and their families to survive.

On the basis of these research findings, it can be concluded that any training programme should make the informal business owner aware of the customer's legal rights and obligations. In view of the amendments that are taking place regarding legislation at the present time, training on other aspects of the law can only be developed in relation to these changes. The role of municipal officials in educating informal business owners to enable them to function within the law will be discussed in a later chapter.

4.9 THE BEST AND WORST ASPECTS OF FORMAL AND INFORMAL BUSINESSES

A summary of the research findings regarding customers' views of informal businesses can be given by comparing the customers' responses to four questions. They were asked to state what the best thing was about supporting a formal business and what the best thing was about supporting an informal one (Table 4.14). They were also asked to state what the worst thing was about supporting a formal business and what the worst thing was about supporting an informal one (Table 4.15).

- The best aspects of supporting a formal sector business were: A better quality of goods and services, a wider range of products, value for money and proper handling of complaints.

- The best aspects of supporting an informal sector business were: Reasonable prices, convenient situation and hours of opening, a personalised service, credit facilities and doing something as a customer to help overcome the problems of poverty and unemployment.

- The worst aspects of supporting formal sector businesses were: the expense of the goods or services, their poor customer relations, racial discrimination and having to pay general sales tax (GST).

- The worst aspects of supporting informal sector businesses were: the inferior quality of goods and services, the limited stock that is kept, the risk involved in the transaction and the fluctuating prices.

These best and worst aspects of both formal and informal business should be taken into account in any training programmes. Informal business owners can be encouraged to build on the existing strengths of the informal sector as well as to find methods to overcome the weaknesses.

4.10 POSSIBLE TRAINING AND EDUCATION IMPLICATIONS

The findings regarding customers support the previous recommendations made regarding training of the informal business owner. In addition the following training needs were identified:

- The spending power of customers needs to be taken into account as a topic to be covered in training courses, or when giving advice or counselling. Business owners need information on the ways in which the socio-economic status of the community and the spending power within it can be estimated.

- The specific type of products or services that an informal sector business can offer to customers as distinct from a formal one can form the contents of another training module. This type of module can then be presented to potential business owners in the informal sector. Products and services, as the findings have shown, are different in the informal sector from those which are normally purchased from the formal sector. They also differ for different population groups.

- Training courses can emphasise the need for an informal business to offer a personalised service to customers. Modules can be developed around customer relations, helping the customer and offering something that is specially ordered or made for a particular individual or is unique.

- Training should focus not only on the strengths of informal sector businesses, but also on their weaknesses. This means that the need for training on costing and pricing, stock taking and ordering on time should be recognised.

- Training is also needed on methods of quality control, on tidiness and hygienic practices as well as on the effective display of products. Such training could be directed towards improving the image of the business and its products or services.

- As far as the customers themselves are concerned, education into consumer behaviour may be an important consideration to enable them to give feedback to informal business owners regarding their needs and their satisfaction or dissatisfaction with products or services of these businesses.

- Training for both customers and informal business owners needs to focus on the legal rights and obligations of both groups and ways in which these rights can be exercised.

- The development of consumer associations can help to give customers advice and guidance on using the informal sector. This type of development needs to be encouraged in a training strategy for informal businesses.

- Again a modular system of training, where each module is independent, but where modules can be linked to each other to form a package of qualifications that are most useful to the individual business owner, or that are useful for consumers, can be stressed.

TABLE 4.1

GEOGRAPHICAL DISTRICT IN WHICH CUSTOMERS WERE FOUND

Geographical district	Population group									
	Black*		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Johannesburg	39	14,6	9	25,0	8	17,8	8	18,2	64	16,3
Cape Town	41	15,4	3	8,3	13	28,9	4	9,1	61	15,6
Port Elizabeth	40	15,0	4	11,1	8	17,8	4	9,1	56	14,3
Durban	39	14,6	4	11,1	4	8,9	12	27,3	59	15,1
Bloemfontein	10	3,8	4	11,1	-	-	-	-	14	3,6
Newcastle	10	3,8	4	11,1	-	-	4	9,1	18	4,6
Nelspruit	10	3,8	4	11,1	-	-	4	9,1	18	4,6
George	9	3,4	4	11,1	4	8,9	-	-	17	4,3
Witbank	8	3,0	-	-	4	8,9	4	9,1	16	4,1
Pietersburg	10	3,8	-	-	-	-	-	-	10	2,6
Queenstown	10	3,8	-	-	4	8,9	-	-	14	3,6
Harrismith	10	3,8	-	-	-	-	-	-	10	2,6
De Aar	10	3,8	-	-	-	-	-	-	10	2,6
Upington	11	4,1	-	-	-	-	-	-	11	2,8
King William's Town	10	3,8	-	-	-	-	-	-	10	2,6
Ladysmith	-	-	-	-	-	-	4	9,1	4	1,0
TOTAL	267	100	36	100	45	100	44	100	392	100

*Includes both black established and black *"squatter"* areas.

TABLE 4.2

BIOGRAPHICAL DESCRIPTION OF CUSTOMERS OF INFORMAL BUSINESSES

Biographical description	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Sex										
Male	112	41,9	6	16,7	13	28,9	23	52,3	154	39,3
Female	155	58,1	30	83,3	32	71,1	21	47,7	238	60,7
TOTAL	267	100	36	100	45	100	44	100	392	100
(b) Age group in years										
Unknown	4	1,5	-	-	2	4,4	-	-	6	1,5
23 years or younger	56	21,0	7	19,4	8	17,8	9	20,5	80	20,4
24 - 28 years	59	22,1	5	13,9	1	2,2	8	18,2	73	18,6
29 - 33 years	56	21,0	8	22,2	7	15,6	8	18,2	79	20,2
34 - 43 years	51	19,1	3	8,3	11	24,4	15	34,1	80	20,4
44 years or older	41	15,4	13	36,1	16	35,6	4	9,1	74	18,9
TOTAL	267	100	36	100	45	100	44	100	392	100
(c) Education level										
No education	16	6,0	-	-	2	4,4	-	-	18	4,6
Standard 3 or lower	24	9,0	-	-	-	-	-	-	24	6,1
Standard 4 - 5	37	13,9	-	-	7	15,6	-	-	44	11,2
Standard 6 - 7	73	27,3	-	-	12	26,7	6	13,6	91	23,2
Standard 8 - 9	69	25,8	2	5,6	7	15,6	16	36,4	94	24,0
Matriculation	48	18,0	33	91,7	17	37,8	22	50,0	120	30,6
Unknown	-	-	1	2,8	-	-	-	-	1	0,3
TOTAL	267	100	36	100	45	100	44	100	392	100

TABLE 4.3

MONTHLY INCOME OF CUSTOMERS

Monthly income	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
No regular income	88	33,1	2	5,6	9	20,0	10	22,7	109	27,9
R250 or less	54	20,3	-	-	4	8,9	-	-	58	14,8
R251 - 500	52	19,6	-	-	2	4,4	1	2,3	55	14,1
R501 - 1 000	55	20,7	4	11,1	11	24,4	2	4,6	72	18,4
R1 001 - 1 500	9	3,4	8	22,2	7	15,6	11	25,0	35	9,0
R1 501 - 2 000	2	0,8	6	16,7	6	13,3	8	18,2	22	5,6
R2 001 - 2 500	1	0,4	2	5,6	2	4,4	6	13,6	11	2,8
R2 501 - 3 000	3	1,1	1	2,8	2	4,4	3	6,8	9	2,3
R3 001 - 3 500	-	-	2	5,6	1	2,2	1	2,3	4	1,0
R3 501 - 4 000	2	0,8	4	11,1	-	-	2	4.6	8	2,1
R4 001 or more	-	-	7	19,4	1	2,2	-	-	8	2,1
TOTAL	266	100	36	100	45	100	44	100	391	100

TABLE 4.4

DESCRIPTION OF THE BUSINESS FROM WHICH THE CUSTOMERS WERE BUYING

Description of business	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Business site										
Private residence	57	21,4	25	69,4	16	35,6	31	70,5	129	32,9
Semi-formal business premises	13	4,9	5	13,9	7	15,6	2	4,6	27	6,9
Spaza shops and other "shops" arrangements	26	9,7	2	5,6	5	11,1	3	6,8	36	9,2
Markets	10	3,8	1	2,8	-	-	1	2,3	12	3,1
Back-yards	62	23,2	1	2,8	7	15,6	1	2,3	71	18,1
Pavement	60	22,5	2	5,6	3	6,7	3	6,8	68	17,4
Mobile business	20	7,5	-	-	5	11,1	1	2,3	26	6,6
Not known	19	7,1	-	-	2	4,4	2	4,6	23	5,9
TOTAL	267	100	36	100	45	100	44	100	392	100
(b) Type of business that customers were supporting										
Hawking	61	22,9	4	11,1	11	24,4	8	18,2	84	21,4
Selling prepared food	12	4,5	3	8,3	-	-	1	2,3	16	4,1
Selling groceries and other food	41	15,4	1	2,8	5	11,1	2	4,6	49	12,5
Manufacturing metal products	3	1,1	2	5,6	2	4,4	2	4,6	9	2,3
Pottery, arts and crafts	2	0,8	7	19,4	2	4,4	1	2,3	12	3,1
Clothing, dressmaking	19	7,1	5	13,9	5	11,1	11	25,0	40	10,2
Motor car repairs and accessories	13	4,9	3	8,3	3	6,7	6	13,6	25	6,4
Carpentry, furniture and upholstery	4	1,5	3	8,3	-	-	1	2,3	8	2,0
Electrical repairs and products	3	1,1	2	5,6	2	4,4	4	9,1	11	2,8
Beauty and hair care and products	29	10,9	2	5,6	2	4,4	3	6,8	36	9,2
Money lending	3	1,1	-	-	-	-	-	-	3	0,8
Shoes, repairs and leather work	22	8,2	1	2,8	1	2,2	1	2,3	25	6,4
Shebeens, taverns and entertainment	25	9,4	-	-	1	2,2	2	4,6	28	7,1
Building and construction	9	3,4	1	2,8	1	2,2	-	-	11	2,8
Personal services	6	2,3	2	5,6	4	8,9	1	2,3	13	3,3
Not specified	15	5,6	-	-	6	13,3	1	2,3	22	5,6
TOTAL	267	100	36	100	45	100	44	100	392	100
(c) Classification of business										
Trade	123	46,4	10	27,8	16	35,6	15	34,1	164	42,1
Manufacturing	31	11,7	14	38,9	11	24,4	9	20,5	65	16,7
Services	111	41,9	12	33,3	18	40,0	20	45,4	161	41,3
TOTAL	265	100	36	100	45	100	44	100	390	100

TABLE 4.5

TYPE OF GOODS, SERVICES AND MADE TO SPECIFICATON PRODUCTS CUSTOMERS HAD BOUGHT FROM THE INFORMAL SECTOR DURING THE PAST YEAR

What customers had bought	Population group									
	Black		White		Coloured		Indian		TOTAL*	
	N	%	N	%	N	%	N	%	N	%
(a) Goods										
Fruit and vegetables	153	38,3	14	23,0	24	30,8	28	37,3	219	35,7
Clothing, leather, shoes	68	17,0	10	16,4	20	25,6	18	24,0	116	18,9
Prepared foods	8	2,0	13	21,3	1	1,3	2	2,7	24	3,9
Household goods	10	2,5	7	11,5	6	7,7	3	4,0	26	4,2
Hair and beauty products	17	4,3	3	4,9	2	2,6	-	-	22	3,6
Arts and crafts products	4	1,0	10	16,4	6	7,7	3	4,0	23	3,7
Groceries, food, drink	115	28,8	-	-	15	19,2	19	25,3	149	24,3
Motor car accessories	2	0,5	1	1,6	-	-	1	1,3	4	0,7
Nothing purchased	23	5,8	3	4,9	4	5,1	1	1,3	31	5,0
TOTAL	400	100	61	100	78	100	75	100	614	100

*Each respondent could list more than one type of product

(b) Services and goods made to specification										
Buildings, household repairs, painting	97	25,3	6	14,3	13	21,7	19	26,8	135	24,3
Metal products	11	2,9	2	4,8	2	3,3	1	1,4	16	2,9
Motor car repairs	35	9,1	5	11,9	6	10,0	25	35,2	71	12,8
Hairdressing and beauty treatment	23	6,0	3	7,1	3	5,0	5	7,0	34	6,1
Shoe repairs	79	20,6	-	-	4	6,7	-	-	83	14,9
Personal services (e.g. teaching, creche)	22	5,7	6	14,3	9	15,0	4	5,6	41	7,4
Dressmaking	18	4,7	-	-	5	8,3	9	12,7	32	5,8
Shebeens and restaurant services	17	4,4	1	2,4	-	-	-	-	18	3,2
Carpentry, furniture, upholstery	7	1,8	1	2,4	2	3,3	3	4,2	13	2,3
Money lending	1	0,3	1	2,4	-	-	-	-	2	0,4
Nothing purchased	73	19,0	17	40,5	16	26,7	5	7,0	111	20,0
TOTAL	383	100	42	100	60	100	71	100	556	100

*Each respondent could list more than one type of service

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TABLE 4.6

REASONS FOR BUYING FROM THE INFORMAL SECTOR ACCORDING TO POPULATION GROUP

Reasons	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Convenience	72	27,0	4	11,1	21	46,7	13	29,6	110	28,1
Personal recommendation	9	3,4	3	8,3	-	-	2	4,6	14	3,6
Good quality product or service	72	27,0	22	61,1	12	26,7	10	22,7	116	29,6
Lower prices	62	23,2	3	8,3	7	15,6	15	34,1	87	22,2
Helping the community	22	8,2	2	5,6	1	2,2	3	6,8	28	7,1
Impulse or coincidence	6	2,3	1	2,8	-	-	-	-	7	1,8
Good customer relations	12	5,0	1	2,8	-	-	1	2,3	14	3,6
Caters for basic needs	9	3,4	-	-	-	-	-	-	9	2,3
No reason given	3	1,1	-	-	4	8,9	-	-	7	1,8
TOTAL	267	100	36	100	45	100	44	100	392	100

TABLE 4.7

PERCEPTIONS REGARDING DIFFERENCES BETWEEN FORMAL AND INFORMAL BUSINESSES ACCORDING TO POPULATION GROUP

Reasons		Population group									
		Black		White		Coloured		Indian		TOTAL*	
		N	%	N	%	N	%	N	%	N	%
(a) Inflated prices	Informal	117	43,8	4	11,1	15	33,3	19	43,2	155	39,5
	Formal	150	56,2	32	88,9	30	66,7	25	56,8	237	60,5
	Total	267	100	36	100	45	100	44	100	392	100
(b) Prices differ daily	Informal	162	61,1	12	33,3	29	64,4	29	65,9	232	59,5
	Formal	103	38,9	24	66,7	16	35,6	15	34,1	158	40,5
	Total	265	100	36	100	45	100	44	100	390	100
(c) Prices differ for different customers	Informal	189	72,4	27	75,0	34	82,9	41	93,2	291	76,2
	Formal	72	27,6	9	25,0	7	17,1	3	6,8	91	23,8
	Total	261	100	36	100	41	100	44	100	382	100
(d) Run out of stock	Informal	234	87,6	29	80,6	36	85,7	35	79,5	334	85,9
	Formal	33	12,4	7	19,4	6	14,3	9	20,5	55	14,1
	Total	267	100	36	100	42	100	44	100	389	100
(e) Limited choice	Informal	212	79,4	31	86,1	39	88,6	41	93,2	323	82,6
	Formal	55	20,6	5	13,9	5	11,4	3	6,8	68	17,4
	Total	267	100	36	100	44	100	44	100	391	100
(f) Stock goods you want	Informal	59	22,1	8	22,2	15	33,3	9	20,5	91	23,2
	Formal	208	77,9	28	77,8	30	66,7	35	79,5	301	76,8
	Total	267	100	36	100	45	100	44	100	392	100
(g) More tidy	Informal	63	23,8	13	37,1	8	17,8	2	4,5	86	22,1
	Formal	202	76,2	22	62,9	37	82,2	42	95,5	303	77,9
	Total	265	100	35	100	45	100	44	100	389	100
(h) More hygienic	Informal	46	17,3	14	38,9	6	13,3	1	2,3	67	17,1
	Formal	220	82,7	22	61,1	39	86,7	43	97,7	324	82,9
	Total	266	100	36	100	45	100	44	100	391	100
(i) More efficient	Informal	64	24,0	9	25,0	9	20,0	3	6,8	85	21,7
	Formal	203	76,0	27	75,0	36	80,0	41	93,2	307	78,3
	Total	267	100	36	100	45	100	44	100	392	100
(j) Better customer treatment	Informal	154	58,1	32	88,9	30	66,7	22	50,0	238	61,0
	Formal	111	41,9	4	11,1	15	33,3	22	50,0	152	39,0
	Total	265	100	36	100	45	100	44	100	390	100
(k) More convenient hours	Informal	163	61,3	23	63,9	31	68,9	35	79,5	252	64,5
	Formal	103	38,7	13	36,1	14	31,1	9	20,5	139	35,5
	Total	266	100	36	100	45	100	44	100	391	100
(l) Guarantee product quality	Informal	48	18,0	17	48,6	8	17,8	3	6,8	76	19,4
	Formal	219	82,0	18	51,4	37	82,2	41	93,2	315	80,6
	Total	267	100	35	100	45	100	44	100	391	100
(m) Guarantee workmanship	Informal	64	24,0	21	58,3	7	16,7	3	6,8	95	24,4
	Formal	203	76,0	15	41,7	35	83,3	41	93,2	294	75,6
	Total	267	100	36	100	42	100	44	100	389	100
(n) Have the size of product you want	Informal	60	22,5	4	11,1	6	13,3	6	13,6	76	19,4
	Formal	207	77,5	32	88,9	39	86,7	38	86,4	316	80,6
	Total	267	100	36	100	45	100	44	100	392	100

*All respondents did not answer every time

(Continued)

TABLE 4.7 (continued)

PERCEPTIONS REGARDING DIFFERENCES BETWEEN FORMAL AND INFORMAL BUSINESSES ACCORDING TO POPULATION GROUP

Reasons		Population group									
		Black		White		Coloured		Indian		TOTAL	
		N	%	N	%	N	%	N	%	N	%
(o) Serve you in your own language	Informal	244	91,7	33	94,3	33	76,7	32	72,7	342	88,1
	Formal	22	8,3	2	5,7	10	23,3	12	27,3	46	11,9
	Total	266	100	35	100	43	100	44	100	388	100
(p) Equal treatment of customers irrespective of race	Informal	165	62,0	16	45,7	30	66,7	22	50,0	233	59,7
	Formal	101	38,0	19	54,3	15	33,3	22	50,0	157	40,3
	Total	266	100	35	100	45	100	44	100	390	100
(q) Allow you to pay later	Informal	163	61,3	14	38,9	27	60,0	24	54,5	228	58,3
	Formal	103	38,7	22	61,1	18	40,0	20	45,5	163	41,7
	Total	266	100	36	100	45	100	44	100	391	100
(r) Allow you to open an account	Informal	67	25,2	2	5,6	13	29,5	12	27,3	94	24,1
	Formal	199	74,8	34	94,4	31	70,5	32	72,7	296	75,9
	Total	266	100	36	100	44	100	44	100	390	100
(s) Allow you to put down a lay-by	Informal	65	24,3	3	8,6	5	11,6	6	13,6	79	20,3
	Formal	202	75,7	32	91,4	38	88,4	38	86,4	310	79,7
	Total	267	100	35	100	43	100	44	100	389	100
(t) Offer a personalised service	Informal	134	50,4	32	88,9	30	66,7	24	54,5	220	56,3
	Formal	132	49,6	4	11,1	15	33,3	20	45,5	171	43,7
	Total	266	100	36	100	45	100	44	100	391	100
(u) Order goods for you personally	Informal	97	36,5	25	69,4	17	38,6	21	47,7	160	41,0
	Formal	169	63,5	11	30,6	27	61,4	23	52,3	230	59,0
	Total	266	100	36	100	44	100	44	100	390	100
(v) Manufacture goods according to your specifications	Informal	77	28,9	34	94,4	19	45,2	24	54,5	154	39,7
	Formal	189	71,1	2	5,6	23	54,8	20	45,5	234	60,3
	Total	266	100	36	100	42	100	44	100	388	100
(w) Have their goods well displayed	Informal	49	18,4	8	22,9	6	14,0	-	-	63	16,2
	Formal	217	81,6	27	77,1	37	86,0	44	100,0	325	83,8
	Total	266	100	35	100	43	100	44	100	388	100
(x) Have better quality goods	Informal	23	8,6	18	50,0	4	9,1	5	11,4	50	12,8
	Formal	243	91,4	18	50,0	40	90,9	39	88,6	340	87,2
	Total	266	100	36	100	44	100	44	100	390	100
(y) Offer a better delivery service	Informal	26	9,8	15	41,7	12	27,3	8	18,2	61	15,7
	Formal	239	90,2	21	58,3	32	72,7	36	81,8	328	84,3
	Total	265	100	36	100	44	100	44	100	389	100

* All respondents did not answer every time.

TABLE 4.8

BOOLEAN FACTOR ANALYSIS : LOADINGS OBTAINED WHEN COMPARING FORMAL AND INFORMAL BUSINESSES

Items	Factor 1 Informal sector has fluctuating prices	Factor 2 Informal sector has good customer relations	Factor 3 Informal sector has a limited range of goods	Factor 4 Informal sector offers a personalised service	Factor 5 Informal sector has lower standards	Factor 6 Informal sector does offer credit	Factor 7 Informal sector offer a limited range of services
Inflated prices	*						
Prices that differ from day to day	*						
Prices that differ from customer to customer	*						
Run out of stock			*				
Limited choice available			*				
Keep the goods you want in stock							*
More tidy					*		
More hygienic					*		
Run more efficiently					*		
Give customer better treatment		*					
More convenient hours		*					
Guarantee the quality of its products					*		
Guarantee the quality of its workmanship					*		
Have the size of product that you want							*
Serve you in your own language		*					
Give all customers equal treatment irrespective of race		*					
Allow you to pay later						*	
Allow you to open an account						*	
Allow you to put down a lay-by						*	
Offer a personalised service				*			
Order goods for you personally				*			
Manufacture goods according to your specifications				*			
Have their goods well displayed							*
Have better quality goods							*
Offer a better delivery service							*

Note: For Boolean factor analysis, the factor loadings are all equivalent to one. Thus the factor that each item loads on is indicated by an asterisk

TABLE 4.9

VARIABLES INFLUENCING CUSTOMERS' PERCEPTIONS OF INFORMAL BUSINESSES

	Informal Businesses						
Variables	Have fluctuating prices	Have good customer relations	Offer a limited range of goods	Offer a personalised service	Have lower standards	Offer credit	Offer limited services
Intercept	0,40***	0,28***	0,27***	0,45***	4,02***	2,56***	3,57***
Customers' population group:							
Black				-0,26***			
White	-0,27***	0,13**		0,35***	-1,07***		-0,49**
Coloured							
Indian	0,13*	-0,13*			0,89***		0,39*
Region:							
Johannesburg				-0,25*			
Cape Town			0,13**		-0,58***		
Port Elizabeth				0,32*	-0,33**		
Durban	-0,17**			0,15**	-0,63***	-1,27***	-0,59***
Bloemfontein						0,79***	
Newcastle							
Nelspruit	0,24*					0,60**	
George				-0,19*			
Witbank							
Pietersburg							
Queenstown							
Harrismith	-0,24**						
De Aar							
Upington	0,27*	-0,29**	-0,13**			0,64*	
King William's Town			0,22**				
Ladysmith							
Recourse to the law							
Altruism score			0,09***				0,02**
N	390	390	390	390	390	391	391
R^2	0,09	0,07	0,11	0,17	0,15	0,21	0,10

*** p < 0,01; ** p < 0,05; * p < 0,10

TABLE 4.10

ALTRUISTIC CONSIDERATIONS INFLUENCING THE CUSTOMER'S DECISION TO SUPPORT THE INFORMAL SECTOR AND THE WAY THESE CONSIDERATIONS GROUPED TOGETHER

(a) Altruistic considerations

Decision to support informal sector	Population group									
	Black		White		Coloured		Indian		TOTAL	
	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd
Keeping money and buying power in the community	3,3	1,4	3,0	1,6	2,9	1,2	3,4	1,4	3,3	1,4
Supporting people who are trying to create their own jobs	3,9	1,4	3,6	1,5	4,1	1,1	4,4	1,1	4,0	1,3
Supporting businesses of your own population group	4,0	1,3	2,6	1,7	3,8	1,3	4,0	1,2	3,7	1,4
Alleviating unemployment	3,8	1,3	3,3	1,5	3,6	1,2	4,1	1,3	3,7	1,3
Helping the country's economy to grow	3,4	1,4	3,3	1,4	3,0	1,2	3,3	1,4	3,3	1,4
Helping people to survive during hard times	4,0	1,3	3,6	1,4	4,1	1,2	4,2	1,3	4,0	1,3
Provision of needed goods and services at affordable prices	3,9	1,3	4,5	0,9	4,3	0,9	4,1	1,1	4,0	1,1

$\bar{X}$ = mean; sd = standard deviation

(b) Factor analysis - altruism scores

Items	Altruism
Helping people to survive during hard times	0,76
Supporting people who are trying to create their own jobs	0,71
Alleviating unemployment	0,70
Supporting businesses of your own population group	0,58
Helping the country's economy to grow	0,55
Provision of needed goods and services at affordable prices	0,49
Keeping money and buying power in the community	0,34

TABLE 4.11

VARIABLES INFLUENCING ALTRUISTIC REASONS FOR SUPPORTING THE INFORMAL SECTOR

Variables		Parameter estimates
Intercept		19,15***
Categories of business	Trade	
	Manufacturing	-0,96*
	Services	1,05**
Importance of recourse to legal action for the respondent		
Population group of customer	Black	0,89*
	White	-1,78**
	Coloured	
	Indian	
Region	Johannesburg	
	Cape Town	
	Port Elizabeth	1,49*
	Durban	1,97**
	Bloemfontein	
	Newcastle	
	Nelspruit	
	George	
	Witbank	
	Pietersburg	
	Queenstown	
	Harrismith	
	De Aar	
	Upington	
	King William's Town	-5,52**
Informal businesses have fluctuating prices		
Informal businesses have good customer relations		
Informal businesses offer a limited range of goods		2,92***
Informal businesses offer a personalised service		0,80**
Informal businesses do have lower standards		
Informal businesses offer credit		
Informal businesses offer limited services		0,68**
N =		389
R^2 =		0,15

***p< 0,01; **p< 0,05; *p< 0,10

TABLE 4.12

EXTENT TO WHICH RESPONDENTS THOUGHT THAT IT WAS IMPORTANT TO HAVE RECOURSE TO LEGAL PROCEDURES IF THERE ARE ANY PROBLEMS WITH TRANSACTIONS

Importance of recourse to legal procedures	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Not at all important = 1	85	32,6	12	33,3	7	16,7	5	11,6	109	28,5
Slightly important = 2	27	10,3	2	5,6	4	9,5	9	20,9	42	11,0
Moderately important = 3	41	15,7	8	22,2	10	23,8	6	14,0	65	17,0
Important = 4	31	11,9	7	19,4	9	21,4	6	14,0	53	13,9
Very important = 5	77	29,5	7	19,4	12	28,6	17	39,5	113	29,6
TOTAL	261	100	36	100	42	100	43	100	382	100

TABLE 4.13

REASONS FOR SAYING THAT ACCESS TO LEGAL PROCEDURES ARE/ARE NOT IMPORTANT

Reasons	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Legal access is important										
Product should be guaranteed	10	4,2	7	19,4	9	20,5	3	7,0	29	8,0
Customer should be protected	19	7,9	1	2,8	1	2,3	3	7,0	24	6,6
Legal action is sometimes necessary	26	10,8	9	25,0	10	22,7	8	18,6	53	14,6
People need legal rights	38	15,8	-	-	2	4,6	10	23,3	50	13,7
Subtotal	93	38,7	17	47,2	22	50,1	24	55,9	156	42,9
(b) Legal access is not important										
Ordinary people do not, in any case, have access to legal action	49	20,3	7	19,4	10	22,7	5	11,6	71	19,5
People try to solve problems by themselves without taking legal action	20	8,3	1	2,8	-	-	1	2,3	22	6,0
It is important to support the informal sector	28	11,6	5	13,9	2	4,6	2	4,7	37	10,2
Subtotal	97	40,2	13	36,1	12	27,3	8	18,6	130	35,7
(c) Do no. know										
Any response indicating respondent was not sure	51	21,2	6	16,7	10	22,7	11	25,6	78	21,4
TOTAL	241	100	36	100	44	100	43	100	364	100

TABLE 4.14

CUSTOMERS' VIEWS ON WHAT IS BEST ABOUT THE FORMAL AND THE INFORMAL BUSINESS SECTORS

(a) Customers' views on the best aspects of supporting a formal business

Formal : Best aspect	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
They are stable	19	7,3	2	5,6	3	6,8	1	2,3	25	6,5
Better quality goods and services	59	22,7	5	13,9	20	45,5	21	48,8	105	27,4
Caters for customers needs	74	28,5	21	58,3	12	27,3	10	23,3	117	30,6
Value for money	41	15,8	3	8,3	3	6,8	1	2,3	48	12,5
Complaints are properly handled	24	9,2	5	13,9	5	11,4	6	14,0	40	10,4
Hygienic	14	5,4	-	-	-	-	3	7,0	17	4,4
Customers are well treated	6	2,3	-	-	1	2,3	-	-	7	1,8
Do not know	23	8,9	-	-	-	-	1	2,3	24	6,3
TOTAL	260	100	36	100	44	100	43	100	383	100

(b) Customers' views on the best aspects of supporting an informal business

Informal : Best aspect	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Businesses meet the specific needs of the customer	9	3,5	6	16,7	-	-	2	5,0	17	4,5
Support helps to overcome unemployment	36	14,0	-	-	-	-	3	7,5	39	10,3
Convenience	47	18,3	2	5,6	14	31,8	15	37,5	78	20,7
Personalised service	28	10,9	24	66,7	10	22,7	3	7,5	65	17,2
Reasonable prices	66	25,7	3	8,3	13	29,6	10	25,0	92	24,4
Credit facilities are available	36	14,0	1	2,8	5	11,4	6	15,0	48	12,7
Support helps business owners to improve their businesses	27	10,5	-	-	-	-	1	2,5	28	7,4
Support helps the community	6	2,3	-	-	1	2,3	-	-	7	1,9
Do not know	2	0,8	-	-	1	2,3	-	-	3	0,8
TOTAL	257	100	36	100	44	100	40	100	377	100

TABLE 4.15

CUSTOMERS' VIEWS ON WHAT IS WORST ABOUT THE FORMAL AND THE INFORMAL BUSINESS SECTORS

(a) Customers' views on the worst aspects of supporting a formal business

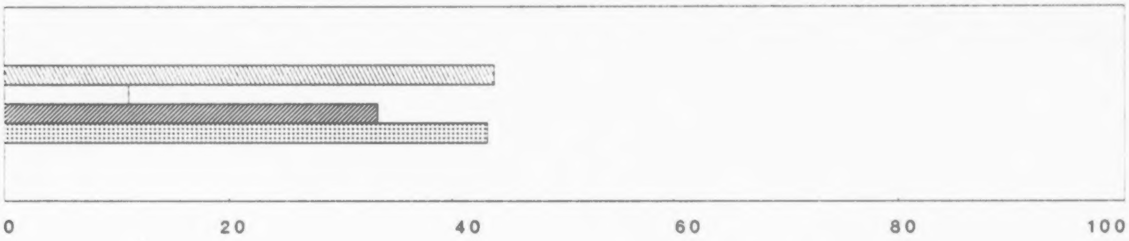
Formal : Worst aspect	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Poor customer relations	39	15,4	13	36,1	2	4,6	5	11,4	59	15,6
Too expensive	36	14,2	5	13,9	13	29,6	15	34,1	69	18,3
Inconvenient situation	17	6,7	3	8,3	6	13,6	8	18,2	34	9,0
Inconvenient times and slow service	9	3,5	5	13,9	3	6,8	3	6,8	20	5,3
Owners only interested in profit	14	5,5	1	2,8	3	6,8	1	2,3	19	5,0
Racial discrimination	41	16,1	-	-	4	9,1	1	2,3	46	12,2
Customer pays GST	25	9,8	1	2,8	7	15,9	7	15,9	40	10,6
Businesses are too big	5	2,0	2	5,6	2	4,6	-	-	9	2,4
Poor service	3	1,2	4	11,1	1	2,3	2	4,6	10	2,7
No credit facilities	18	7,1	-	-	-	-	-	-	18	4,8
Do not know	47	18,5	2	5,6	3	6,8	2	4,6	54	14,4
TOTAL	254	100	36	100	44	100	44	100	378	100

(b) Customers' views on the worst aspects of supporting an informal business

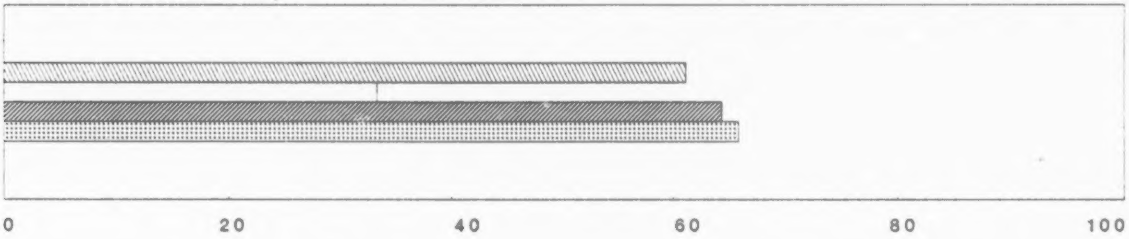
Informal : Worst aspect	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Limited stock	50	20,2	9	25,7	11	25,6	11	25,0	81	22,0
Unreliable/risky transactions	21	8,5	7	20,0	4	9,3	8	18,2	40	10,8
Poor customer relations	17	6,9	4	11,4	6	14,0	1	2,3	28	7,6
Premises inadequate	15	6,1	-	-	1	2,3	1	2,3	17	4,6
Inferior service	74	30,0	10	28,6	14	32,6	16	36,4	114	30,9
Fluctuating prices	25	10,1	1	2,9	3	7,0	6	13,6	35	9,5
Do not know	45	18,2	4	11,4	4	9,3	1	2,3	54	14,6
TOTAL	247	100	35	100	43	100	44	100	369	100

FIGURE 4.1
PERCENTAGE OF CUSTOMERS WHO CHOSE THE INFORMAL SECTOR (According to population group)

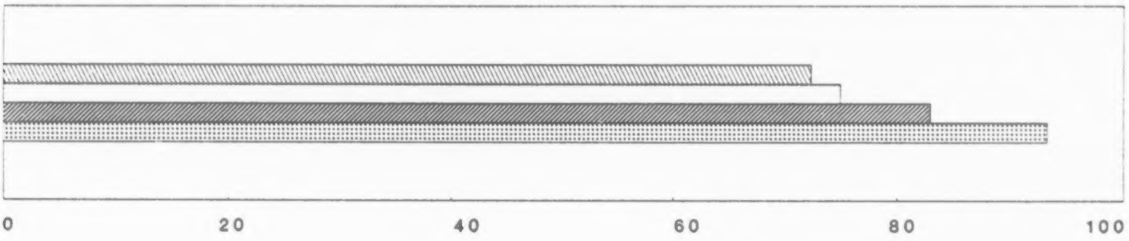
(a) Inflated prices



(b) Prices differ daily



(c) Prices differ for different customers



(d) Run out of stock

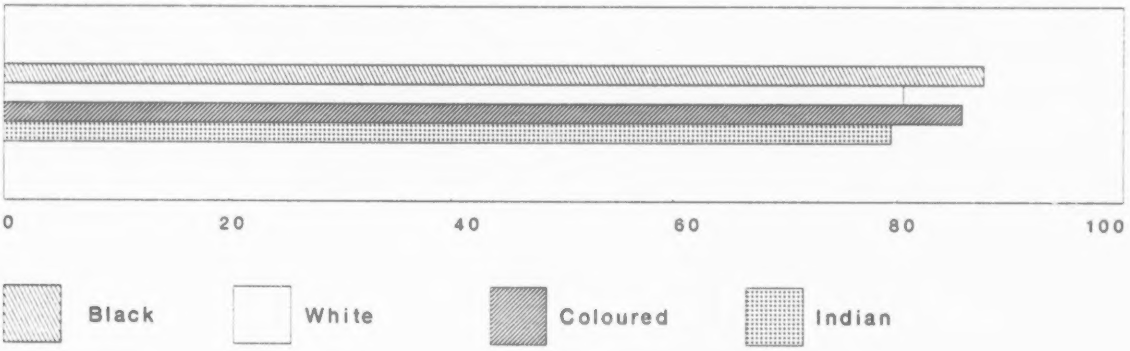
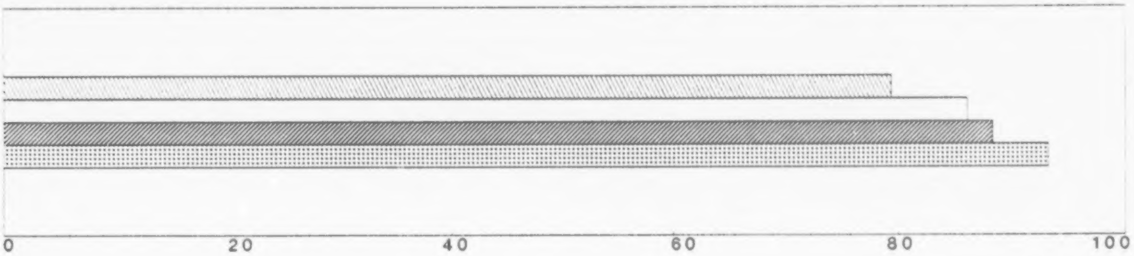
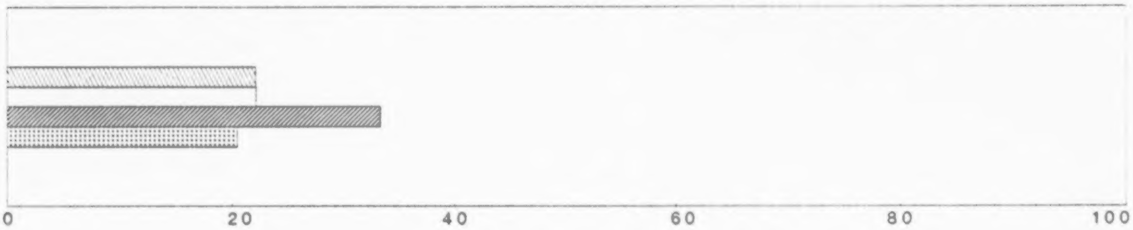


FIGURE 4.1 (Continued)
PERCENTAGE OF CUSTOMERS WHO CHOSE THE INFORMAL SECTOR (According to population group)

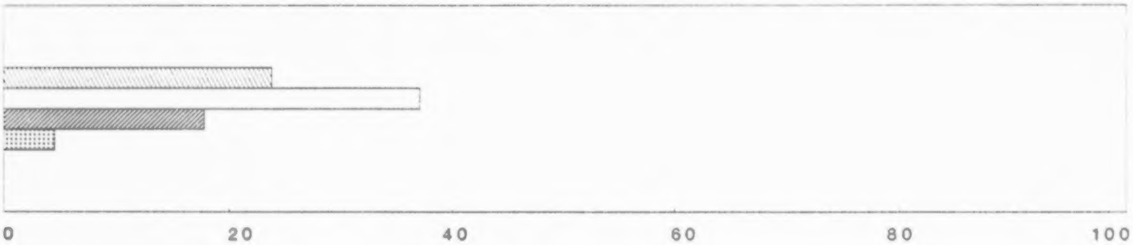
(e) Limited choice



(f) Stock goods you want



(g) More tidy



(h) More hygienic

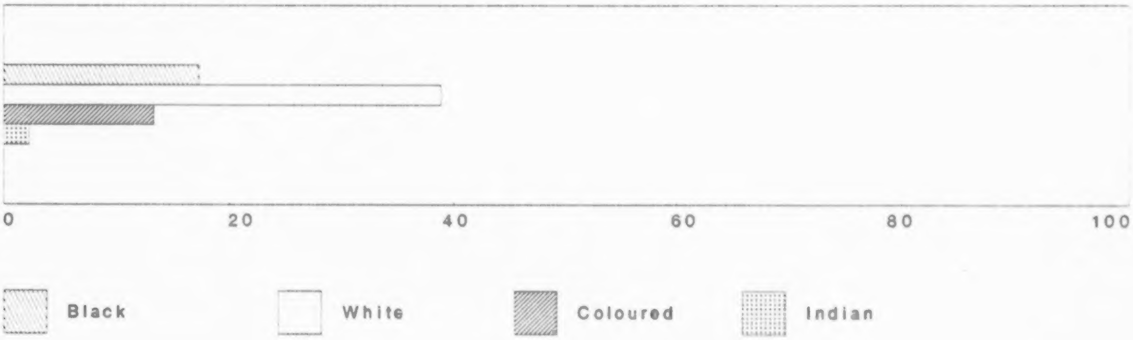
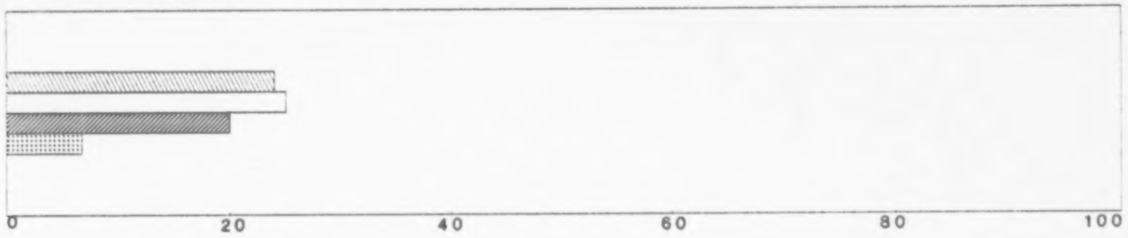


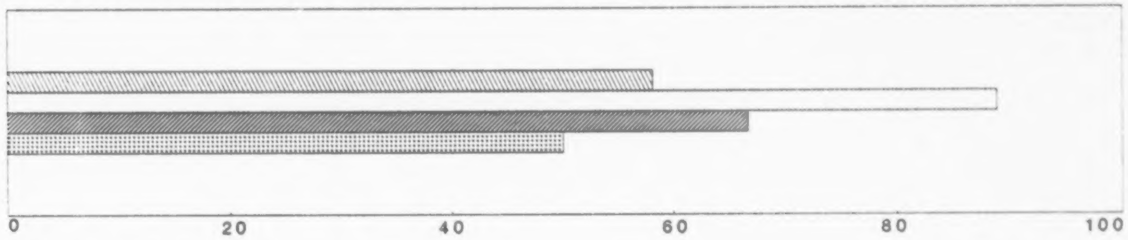
FIGURE 4.1 (Continued)

PERCENTAGE OF CUSTOMERS WHO CHOSE THE INFORMAL SECTOR (According to population group)

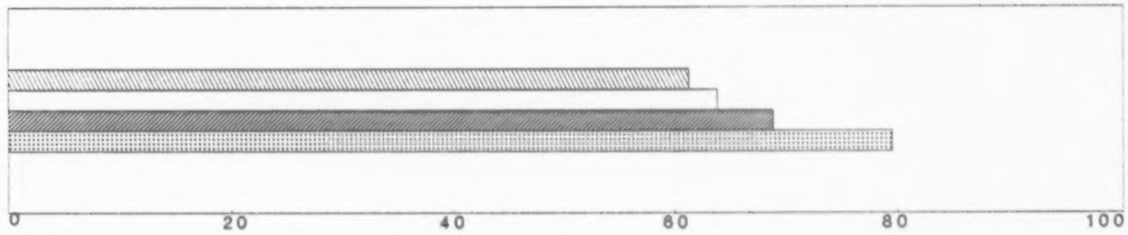
(i) More efficient



(j) Better customer treatment



(k) More convenient hours



(l) Guarantee quality of product

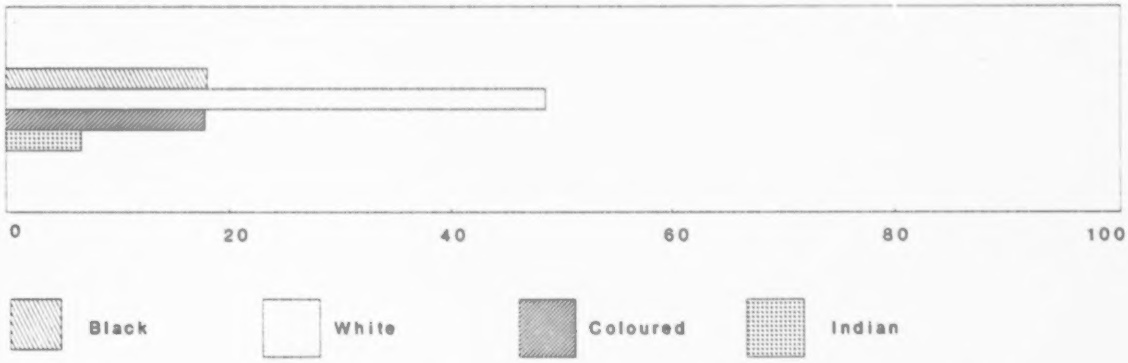
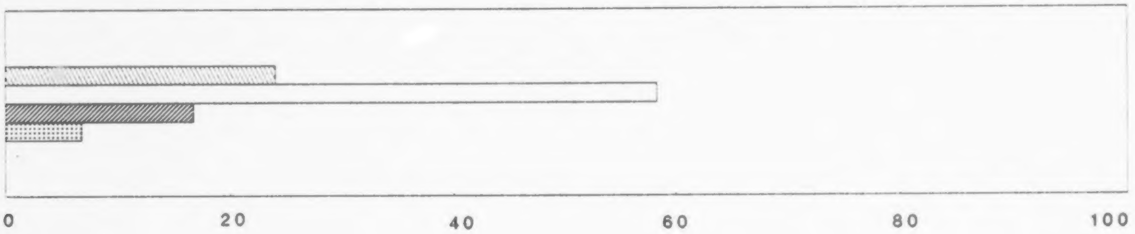
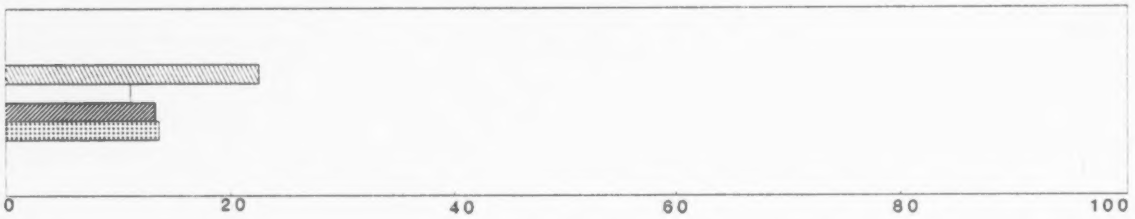


FIGURE 4.1 (Continued)
PERCENTAGE OF CUSTOMERS WHO CHOSE
THE INFORMAL SECTOR (According to population group)

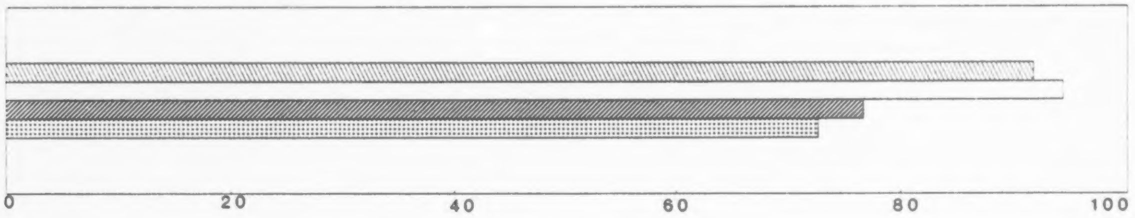
(m) Guarantee workmanship



(n) Have the size of product you want



(o) Serve you in your own language



(p) Equal treatment of customers irrespective of race

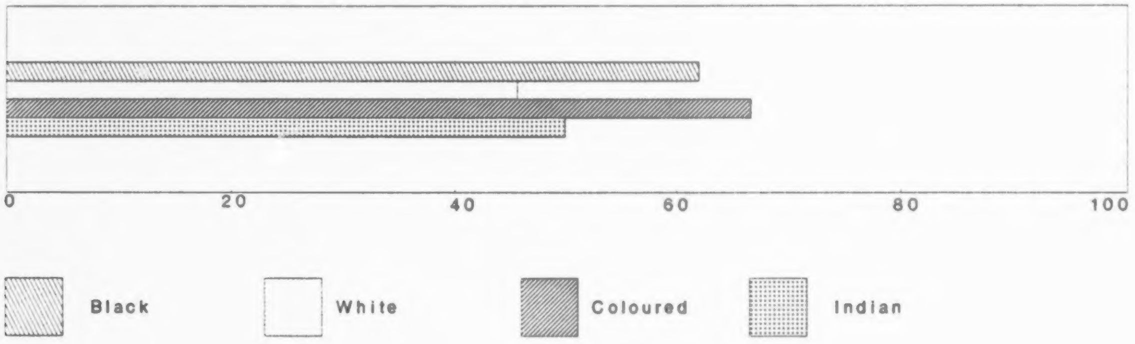
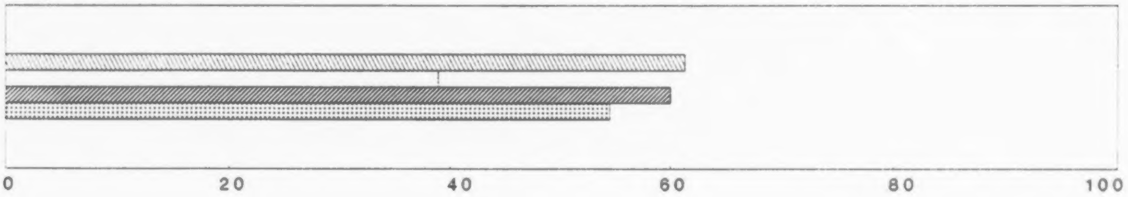
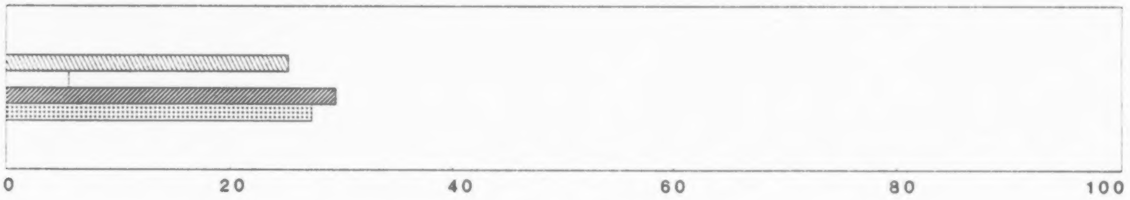


FIGURE 4.1 (Continued)
PERCENTAGE OF CUSTOMERS WHO CHOSE THE INFORMAL SECTOR (According to population group)

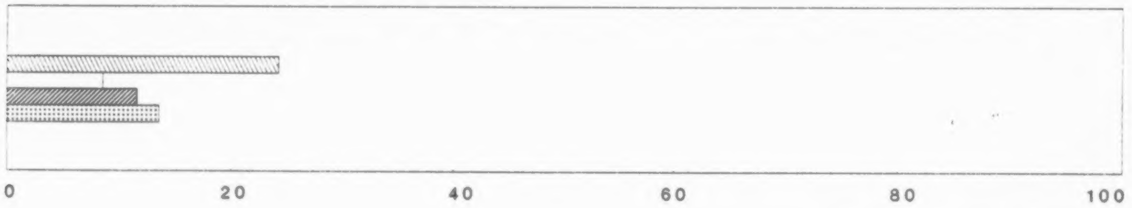
(q) Allow you to pay later



(r) Allow you to open an account



(s) Allow you to put down a lay-by



(t) Offer a personalized service

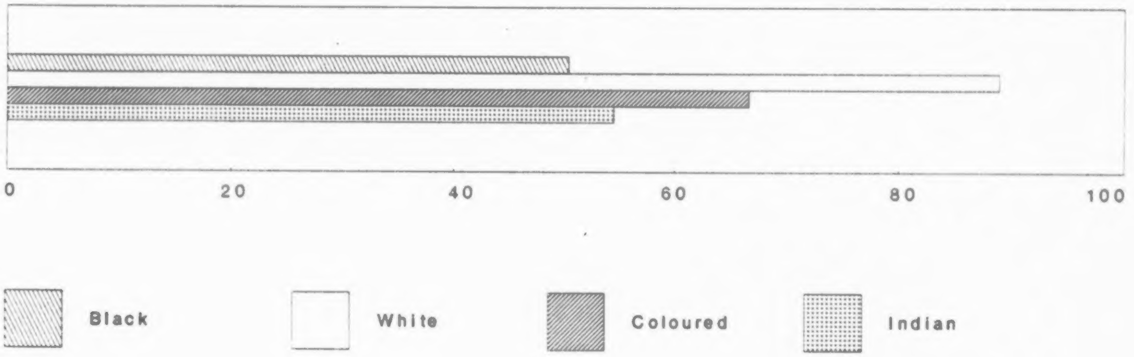
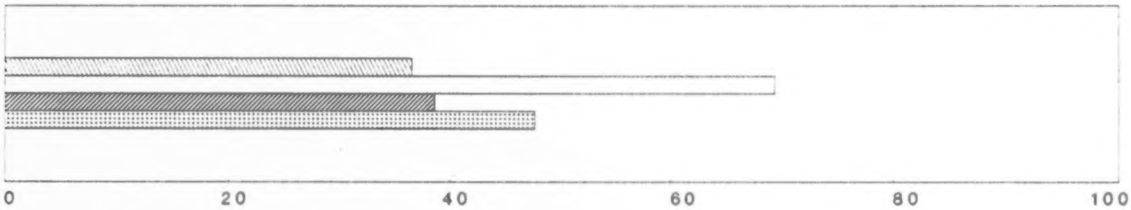
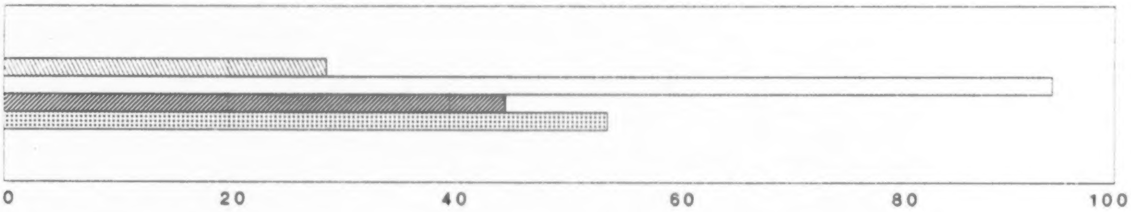


FIGURE 4.1 (Continued)
PERCENTAGE OF CUSTOMERS WHO CHOSE THE INFORMAL SECTOR (According to population group)

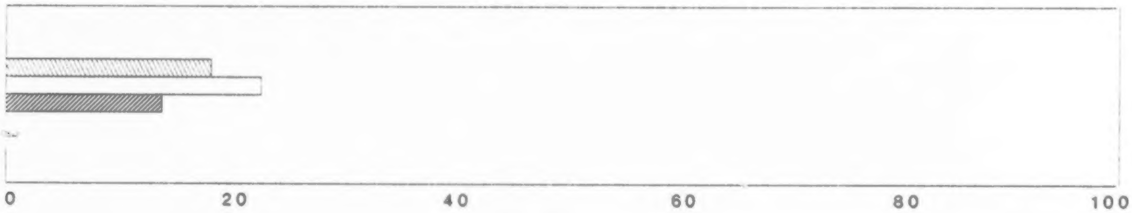
(u) Order goods for you personally



(v) Manufacture goods according to your specifications



(w) Have goods well displayed



(x) Have better quality goods

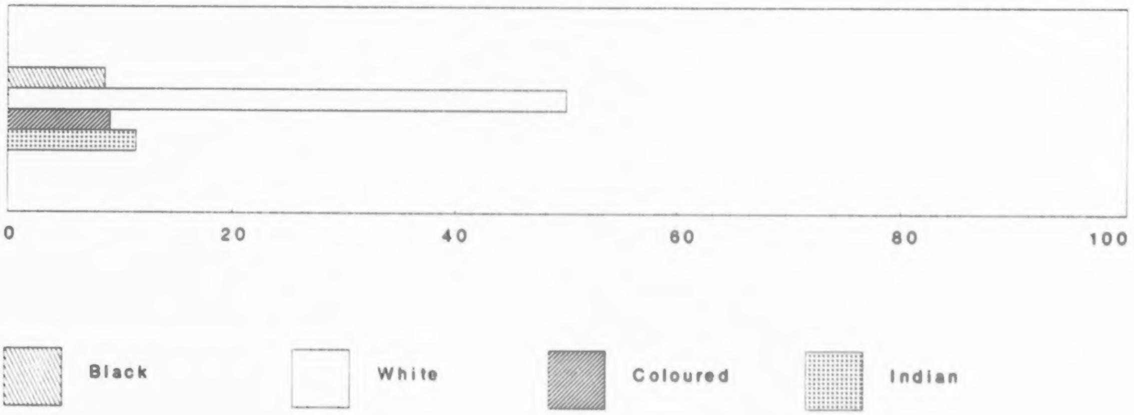
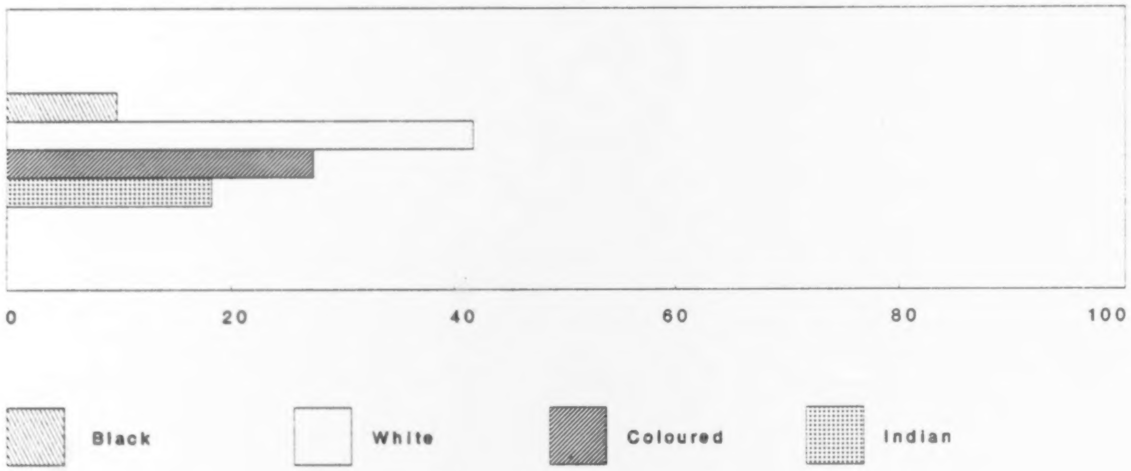


FIGURE 4.1 (Continued)

PERCENTAGE OF CUSTOMERS WHO CHOSE THE INFORMAL SECTOR (ACCORDING TO PUPULATION GROUP)



(y) Offer a better delivery service

CHAPTER 5

FORMAL BUSINESS OWNERS AND THEIR VIEWS ON INFORMAL BUSINESSES

5.1 INTRODUCTION

Two fundamental training aims with regard to the informal sector are to enable informal business owners to run their businesses efficiently and profitably and to encourage the development of skills to enable them to expand the business if they choose to do so. If they expand, one direction in which informal business owners can move is towards becoming formal. An examination of small businesses in the formal sector from the point of view of their owners can give an indication of the ways in which formal and informal businesses are similar to, or differ from, each other. The extent to which informal businesses can become formal can then become apparent.

A third training aim with regard to the informal sector is to encourage the development of business support systems between formal and informal businesses. It is therefore also important to determine the extent to which informal and formal businesses interact with each other and make use of each other's products and services. Opinions were therefore sought from formal business owners regarding possible interactions between the sectors.

5.2 AIMS OF THE STUDY SPECIFICALLY RELATED TO FORMAL BUSINESS OWNERS

This part of the study therefore aimed

- to give a biographical description of a group of owners of small formal businesses situated in the same neighbourhoods as the informal businesses and to compare these biographical characteristics with those of informal business owners.

- to give a description of the type of businesses that they run.

- to explore the way in which they started their businesses.

- to determine the human resources available to them to run their businesses.

- to explore their perceptions of informal businesses.

- to examine the extent to which owners of small formal businesses use the products and services of informal businesses both in their personal capacity and in their businesses.

- to determine the extent to which they have subcontracting arrangements with informal businesses.

- to determine the extent to which they are prepared to sell their own products and services to the informal sector, to co-operate with this sector and generally, to help informal business owners.

- on the basis of this information, to determine training needs of both formal and informal business owners in relation to encouraging the development of the informal sector.

5.3 BIOGRAPHICAL DESCRIPTION OF THE FORMAL BUSINESS OWNERS

As indicated in Chapter 1, owners of small formal businesses were obtained from the same neighbourhoods as informal business owners. Altogether, 105 interviews were conducted with these owners in 16 geographical districts (Table 5.1). To qualify for inclusion as an owner of a small formal business, the respondent was required to have a business licence, a general sales tax number and formal premises such as a shop or a small factory, a workshop or an office. The business was required to be an independent business and not part of a larger company. As far as employees are concerned, a maximum of 20 employees, if any, was specified for inclusion in the study.

5.3.1 Sex and age group of formal business owners

The sample consisted of more males (67 %) than females (33 %) in varying age groups (Table 5.2). The youngest person in the sample was 24 years old, whilst the oldest was aged 73 years. Compared to informal businesses in the same neighbourhood, certain differences can be observed. There were almost equal numbers of males and females in the informal sector group, and the age range was wider (18 - 83 years) possibly indicating that the informal sector absorbs a wider range of people including younger and older people, males and females, thus giving more people an opportunity to generate an income, compared to businesses in the formal sector.

5.3.2 Educational level and training received by formal business owners

As far as the highest class passed at school is concerned, 89 % of the respondents in formal businesses had received at least some high school education, all the respondents had attended school, and relatively few (11 %), all of whom were black, had only received a primary school education. In

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the informal sector (Chapter 3) it was noted that a large group of the respondents, particularly blacks, had received very little, if any education. The informal sector is therefore more likely to absorb people with lower levels of education than the formal sector.

Regarding having received any other education or training (Table 5.2d) in addition to schooling, 46 % of owners of formal businesses had done so. This percentage is higher than the proportion of informal business owners who had received other training. Amongst the white formal business owners, almost all (90 %) had received additional education and training, opening more opportunities for them to start a variety of businesses.

As far as the type of further education and training is concerned, the formal business owners had received training in the following fields:

- Seven respondents had received an academic education in diverse disciplines including economics, public administration, science fields, architecture and arts fields.
- Fourteen respondents had received training as nurses or teachers.
- Three respondents had received technical training, for example motor mechanics training.
- Nine had received artisan training, including hairdressing, plumbing and welding.
- Fourteen respondents had received skills training in dressmaking, watchmaking, flower arranging, and shoe repairs.
- Fourteen owners had received business training, including training in bookkeeping and business management and in secretarial fields.

These fields of study are not mutually exclusive. A respondent could have received more than one type of training.

Some of these training courses gave the individual specific skills to enter into a certain type of business, for example a hairdressing salon. On the other hand, skills were also acquired to enable other respondents to run a business. In the informal sector too, the skills that had been acquired through training influenced the type of businesses the business owners had entered (Chapter 3) and their business skills.

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5.4 DESCRIPTION OF THE FORMAL BUSINESSES

The types of businesses that the owners of formal businesses were running (Table 5.3a) were, by and large, similar to those being run by informal business owners. This finding is hardly surprising, in view of the instructions given to the fieldworkers to find similar formal and informal types of businesses for inclusion in the study. Nevertheless, it does indicate that the option of expanding a business and entering the formal sector does exist for informal business owners. The actual type of products and services that the customer wanted from informal businesses differed from those wanted from formal businesses, as indicated in Chapter 4. If an informal business owner wants to become formal, the necessity for exploring the range of products or services that should be offered within the same type of business is again evident.

As far as the length of time the formal businesses in this study had been in operation is concerned, this length ranged from newly started businesses (3 % had been in existence for less than a year at the time of the fieldwork) to well established ones which had been in operation for 20 years or longer (6 %). However, almost half the businesses (46 %) had been in operation for between one and three years, indicating that most businesses were relatively newly established. This pattern is similar to the one found among the informal businesses, where a large proportion were also newly established. It seems as if in recessionary times people create their own employment by starting businesses in both the formal and the informal sectors.

However, more financial and other resources are needed to start a formal rather than an informal business (De Soto 1990) and starting informally with fewer resources may give people the experience, and if they are successful, the financial and other resources to become formal. The first training priority should be to enable the informal sector business owner to function effectively in the informal sector, and once this can be accomplished, the possibility of becoming formal should be considered.

5.5 STARTING A FORMAL BUSINESS

Two aspects regarding starting a formal business were considered, namely reasons for starting the business and how the technical and business skills needed in the business, were acquired.

5.5.1 Reasons for starting a formal business

Most formal business owners, in common with informal ones, started the business themselves (Table 5.3b) rather than taking it over from someone else.

Overall, some of the reasons for starting a business, as given by the formal business owners (Table 5.4) were similar to some of the ones given by informal business owners (Chapter 3), while other reasons differed. Those reasons concerning wanting independence and wanting to earn more money were similar. In addition a group of formal business owners (7 %) started a business because they could not find other work. The same applied to informal business owners (15 %). However, no formal businesses were started because the owner wished to avoid boredom or to supplement the family income. No formal businesses were started because the respondent was too old, too ill or too disabled to work. Again it is obvious that the informal sector is more likely to absorb a wider variety of people than the formal sector. Entry into the formal sector may be extremely difficult for some people as a result of internal constraints (illness, old age, lack of education, family commitments and ties that keep them at home). However, these people also need opportunities to become self sufficient. The need for training to help these people to become efficient informal business owners is again evident. It is important to enable as many people as possible to improve their quality of life.

Both the formal and the informal sector are able to co-exist. The development of interactions between the two sectors and the establishment of a mutual support system need to be encouraged. Again, the necessity of granting legal rights to informal businesses is evident.

5.5.2 Acquiring technical and business skills

By "technical skills" is meant all those skills that are directly related to making the product (for example a cupboard) or offering the service on which the business is based (for example hairdressing). This study showed that in both the formal and the informal sectors, technical skills were more likely to be acquired through experience or through contacts with family members, relatives and friends, rather than through training. In the formal sector (Table 5.5a) 25 % of respondents learned how to acquire these skills by attending training courses as compared to 21 % in the informal sector. However, amongst formal business owners, self-instruction through reading and through correspondence courses (18 %), was an important method of acquiring technical expertise. The provision of self-instruction manuals, pamphlets or books is an important method through which formal business owners can be trained. It is unlikely however that informal business owners, in view of their lower levels of education, will gain as much benefit from this form of instruction as formal business owners.

Regarding learning to run a business (Table 5.5b), in common with informal business owners, relatively few (11 %) formal business owners had done so through attending training courses. Learning through family members, relatives and friends and through experience were important ways in which the respondents acquired skills to actually run a business. Self-instruction through reading (20 %) was again an important method of acquiring business skills for formal business owners.

It is therefore worth reiterating that formal business owners are more likely to look for and to read and to learn from written material than informal business owners. For both formal and informal business owners, however, business training should build on existing life, work and business experience and should supplement this experience.

5.6 HUMAN RESOURCES AVAILABLE TO FORMAL BUSINESS OWNERS

The way in which a business is run depends in part on the human resources available to the business owner. Both paid employees and family members are relevant here.

5.6.1 Paid employees

The findings of this study indicate that formal business owners were highly likely to have at least one paid employee (88 %) working for them (Table 5.6a). This is in contrast to informal businesses where only 28 % of owners had paid employees working for them. In the formal sector, it was also relatively common to find between two to six employees working in a business (52 %), and a large proportion of formal businesses (18 %) had seven or more employees working in them.

It therefore seems as if, in the formal sector, employment opportunities are being created within businesses through giving work to employees. In the informal sector, employment opportunities are being created through replication of businesses rather than through employing someone to work within the business.

The advantage of having employees is that more specialisation can occur and sharing of tasks becomes possible. The businesses can therefore be run more efficiently if staff are well trained. For formal business owners, there is a greater need for training in employee relations. There is also a need to encourage formal business owners to become trainers, to enable them to teach their employees to acquire the skills that are needed for their particular businesses. While this is also a need in the informal sector, it is a less prominent one.

5.6.2 Family involvement in formal businesses

Regarding family involvement in formal businesses (Table 5.6c), almost two thirds (66 %) of the respondents indicated that members of their family were involved in the business. In contrast only 28 % of members of the families of informal business owners were working in the business. This means that in the formal sector, business owners and their families work together, while in the informal sector, business owners tend to be more isolated from their families. The type of work done by the families of formal business owners (Table 5.6c), namely selling (41 %), contributing towards manufacturing a product (25 %) and bookkeeping (21 %), was however similar to the type of work done by the family members in informal businesses.

Training can be used as a means of encouraging informal business owners to involve their families in the business as this makes it possible to share tasks and responsibilities.

5.7 PERCEPTIONS OF INFORMAL BUSINESSES BY FORMAL BUSINESS OWNERS

The above discussion indicates that there are many similarities between formal and informal businesses, despite the many differences. Shared points of contact can therefore be developed between them. One factor which influences the extent to which this can occur however, is the way in which formal business owners perceive the informal sector.

5.7.1 Defining the informal sector

The respondents in formal businesses were therefore asked to explain to the fieldworkers their understanding of the term *"informal business"*. It is relevant to note (Table 5.7a) that almost half (49 %) of the formal business owners focused on the *"illegal"* or unlicenced nature of these businesses. More black (59 %) rather than white (20 %), coloured (30 %) or Indian (31 %) respondents, focused on this lack of legal status of the informal sector. Another large group of respondents (23 %), particularly the white (60 %), coloured (40 %) and Indian (39 %), rather than the black respondents (13 %), focused on what in their opinion was the *"primitive"* or unsophisticated nature of these businesses. The type of sites from which these businesses are run, the standards of hygiene and cleanliness, the lower quality of products and the lower quality of services, in the opinion of formal business owners, were indicative of primitiveness. In Chapter 4, it was indicated that the customers' perceptions of some of the weaknesses of informal business are similar to some of the definitions of informal businesses given by formal business owners. However, these definitions of informal businesses given by formal business owners ignore the strengths of the informal sector, as identified by the customers.

5.7.2 Altruistic approach to the informal sector among formal business owners

After giving a description of the way in which the researchers understood the term *informal sector* (see Chapter 1), the formal business owners were asked to rate informal businesses on a number of items on a five point rating scale measuring *"altruism"*. The items used in this scale were similar to the ones used for the customers (see Chapter 4), but there were some differences. For example, formal business owners were not asked to rate the item *"keeping money and buying power in the community"*, since these formal businesses were also a part of the community.

On average, the altruism ratings given to informal businesses were relatively high (Table 5.7b) and in fact, almost as high as the ratings given by the customers. A factor analysis (not shown in the report) showed that all the items loaded onto a single *"altruism"* factor. If a formal business owner rated the informal sector high on one item measuring altruism, he or she was likely to rate this sector high on all the other items.

A regression analysis, taking biographical and business variables and the actual support given to the informal sector into account (again not shown in this report), showed that only one variable, namely being satisfied with purchases that were made from the informal sector in the formal business owner's personal capacity, was significantly related to altruism. The more satisfied the respondents were with the purchases they had made for themselves from the informal sector (not for their businesses), the higher this altruism score.

One can therefore conclude that, in common with the customers, a feeling of goodwill did exist among formal business owners towards the informal sector. This applied particularly to those respondents who had actually bought goods and services from the informal sector and were satisfied with these purchases. This feeling of goodwill can be built on in education and training programmes for both sectors to try and establish supportive networks between them.

5.8 THE EXTENT TO WHICH FORMAL BUSINESS OWNERS MADE USE OF THE INFORMAL SECTOR

Even though a feeling of goodwill may have existed among formal business owners towards the informal sector, this does not necessarily mean that feelings were translated into actions regarding actual support of the informal sector.

In this section, the extent to which formal business owners made use of the informal sector will be explored. This applies to purchases made both in their personal capacity and for the business, including subcontracting arrangements.

5.8.1 Buying goods and services from the informal sector for personal use

The formal business owners were asked to indicate on a five point scale how frequently they purchased informal sector goods and services for their personal use, where 1 = never or very seldom (less than once a year) and 5 = very often (once a week or more).

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The findings of the study indicate that the respondents had bought these goods and services quite often ($\overline{X}$ = 3,2; Table 5.8a). The Indian respondents were however likely to buy less frequently ($\overline{X}$ = 2,3) from the informal sector compared to owners of formal businesses in other population groups.

The type of goods and services that were purchased (Table 5.8b) are similar to those that were bought by the other informal sector customers (Chapter 4). Fruit and vegetables, groceries, food and drinks were the most common products that were bought from the informal sector.

As far as services are concerned, building, construction and repair services were popular ones that were bought from this sector by both other customers and formal business owners, in their personal capacity.

In general, the formal business owners were satisfied with their purchases made from the informal sector for their personal use ($\overline{X}$ = 3,5 on a five point scale where 1 = not at all satisfied and 5 = very satisfied). As we have already noted, this satisfaction influenced the feeling of goodwill and altruism towards the informal sector. A set of common norms or standards had therefore developed through interactions between the two groups. Homans (1951) in a definitive book on human group behaviour indicated that when people are brought together and interact together, sets of mutual norms and values develop.

Establishing points of contact between informal and formal business owners, for example buying from the informal sector in one's personal capacity, can help to build bridges between them. Training should therefore focus on establishing initial points of contact as one of its aims.

5.8.2 Buying goods for the business from the informal sector

Although most formal business owners had supported the informal sector in their personal capacity, relatively few (42 %) had bought products through this sector for their business during the year prior to the study (Table 5.9a).

The type of products that had been purchased for the business (Table 5.9b) were mainly manufactured items such as furniture, clothes, handicrafts and home baked cakes. Overall, the respondents were satisfied with these products (Table 5.9c).

Among the respondents who had not bought products from the informal sector during the year prior to the study, almost half (43 %) indicated that they did not do so because these informal businesses do not have the type of goods that the respondent needed for their specific type of business (Table 5.9d). A further 17 % indicated that formal businesses were available for this purpose. However, a relatively large group of respondents (21 %) indicated that they did not buy goods from the informal sector for their business because of their belief that these goods were of poor quality.

In view of the personalised nature of informal businesses, as noted in Chapter 3, it is not really surprising that they cater for the individual rather than for businesses. However, the need for skills training for informal business owners to improve the quality of their products is again obvious. With consistently high quality goods, a wider market can become available, including formal businesses.

However, formal business owners themselves need to be made aware that among those who buy informal products for their business, most people were satisfied with these products.

5.8.3 Buying services from the informal sector

Not only products but also various business services can be bought from the informal sector. The respondents in this study in formal businesses indicated that more than half (54 %) of them had actually bought services for their business from the informal sector in the year prior to the study (Table 5.10a). The main services that had been purchased were building, construction and maintenance (44 % of those who had bought services). Repair services (29 %), printing (13 %) and custom made items such as burglar proofing and window frames (10 %) were also popular items (Table 5.10b). Most respondents were satisfied with the services they had bought from the informal sector (Table 5.10c).

Among those who had not bought services (Table 5.10d) from the informal sector during the year prior to the study, the most common reason for not doing so was that the business owners performed these services themselves (49 %). For example they do their own repairs and maintenance instead of obtaining someone else to do these tasks for them. The perceived low quality of the workmanship of informal business owners was again mentioned (18 %).

The same training needs regarding the selling of products to formal businesses apply to the selling of services. Informal business owners need skills training to help them to offer a better service that is consistently of the same standard. Formal business owners need to be made aware of the type of services that are available and the satisfaction experienced by other formal business owners when buying services for their business from the informal sector.

5.8.4 Subcontracting work out to the informal sector

Another important way in which formal business owners can support the informal sector is through subcontracting work out to them. By subcontracting is meant paying a person or a company to do a part of the work for the business on a contract basis. Such a person is not an employee of the business, but is free to take on other business contracts or other work.

In this study, subcontracting was not very common (Table 5.11). Only 16 % of the formal business owners had actually subcontracted out any work.

The type of subcontracts that had occurred entailed selling, delivering, altering clothes, tailoring, computer services and upholstery.

Most businesses did not subcontract work out because they said they did not need to or if they saw a need for subcontracting, they said they could not afford to pay for it (Table 5.11b).

However, those who had actually subcontracted work out were very satisfied with this arrangement. This satisfaction needs to be remembered when looking at training needs round the whole issue of subcontracting. Sharing of work tasks between formal and informal businesses is an area of interaction which can be encouraged to develop through education and training programmes. People need to be made aware of the possible advantages of using the informal sector to complete certain tasks that are too time consuming for the formal sector business owner to complete him or herself. Even such basic services as cleaning the premises, oiling of machines, packing and posting products or posting letters to customers can be subcontracted out to the informal sector. Campaigns to make formal business owners aware of subcontracting possibilities can be launched through the media.

5.9 SELLING TO THE INFORMAL SECTOR

Transactions between formal and informal business owners can take two forms. Formal business owners can buy products and services from the informal sector, or else they can sell their own products and services to informal business owners who need them. In this section, we will examine the extent to which products and services were sold by formal business owners to informal ones and any special terms or forms of payment that occurred when dealing with informal businesses.

5.9.1 Selling products to informal sector business owners

As far as selling products to the informal sector is concerned, a large group (86 %) of formal business owners indicated that they were prepared to do so (Table 5.12a). The reasons given for this readiness to sell (Table 5.12b) included the belief that informal business owners pay promptly (35 %), the perception that the products sold by a particular formal business are needed in the informal sector (22 %), the fact that anyone could buy from the business (19 %) or the desire to help the informal sector (13 %).

Those who were not prepared to sell to the informal sector mentioned their dislike of this sector (6 %) and the perception that their particular products are not needed by informal businesses (5 %) as reasons for not wanting to do so.

5.9.2 Selling services to the informal sector

As far as the selling of services to the informal sector is concerned (Table 5.13), fewer formal business owners were prepared to sell services (67 %) than those who were prepared to sell products (86 %, Table 5.1.2).

The main reason given for not wanting to sell these services (Table 5.13b) was that they were not needed by informal business owners (21 %).

Positive reasons given for being prepared to sell services to the informal sector included the fact that the business catered for everyone (31 %), that informal business owners pay promptly (21 %) and that informal business owners need the service (20 %).

These results show that there is very little objection to having informal business owners as customers. A large group of formal business owners were prepared to sell their products and services to informal businesses. On the other hand, relatively few formal business owners were prepared to buy goods and services for their businesses from the informal sector. This means that more money is moving out of the relatively poorly remunerated informal sector to the formal sector and less money is moving from the wealthier formal sector back into the informal sector.

Training can try to address this situation. If training is seen as part of a larger development process, then building up the image of the informal sector can be coupled with skills training. In this way the chances of improving the support given to the informal sector by the formal sector are increased. The need for training informal business owners to acquire marketing skills is again clearly evident.

5.9.3 Granting special terms and forms of payment to informal businesses

Modern business practices are largely based on credit, and access to credit influences the viability of many businesses. Not only bank loans, but also paying later for goods and services gives businesses more leeway to enhance their profitability. For example, obtaining goods from a supplier, then being given time to sell them before paying the supplier, means that repayments can be made from profits rather than from capital outlay. In addition, formal businesses buying in bulk from other formal businesses are often given special prices or discounts, to the advantage of both parties. The company giving the discount benefits, because larger quantities of stock can be sold at more competitive prices.

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The extent to which these types of arrangements exist between formal and informal businesses need to be explored.

The results of this study (Table 5.14) showed that while more than half the respondents (52 %) were prepared to offer discounts to informal business owners, relatively few were prepared to offer any form of credit to them.

From these findings, one can conclude that there is a need to build relationships based on trust between the two sectors. This trust is already developing, since prompt payment was an important reason mentioned by formal business owners (Tables 5.12b and 5.13b) motivating them to sell to informal businesses.

If mutually satisfying transactions continue to take place between the two sectors, then more relationships based on trust will take place and more credit will be granted. However, training can help by making formal business owners aware of the advantages of doing business with the informal sector. At the same time, the informal sector business owners can be encouraged to form buying co-operatives, as indicated in Chapter 3. Training for informal business owners can include modules concerning obtaining and repayment of credit.

5.10 COMPETITION AND CO-OPERATION WITH INFORMAL BUSINESSES

Two important issues remain to be addressed regarding interactions between the formal and the informal sector. Firstly, the extent to which formal business owners view informal ones as their direct competitors needs to be examined, then the way in which co-operation between the two sectors can be encouraged, needs to be determined.

5.10.1 The extent to which informal businesses were seen as competition

As far as competition is concerned, the respondents were asked to indicate whether or not there were informal business owners in the immediate vicinity of their businesses, and if so, to describe the influence this had on their businesses (Table 5 15). Most formal business owners (61 %) said that there were informal businesses in the immediate vicinity. The mere fact of having these businesses in close proximity to a formal business affected the respondents in different ways. Some viewed this occurrence positively, while others viewed it negatively (Table 5.15b).

Informal businesses could be seen as either increasing or decreasing the volume of sales of a formal business. Those who said the volume of sales increased, said so because the informal business owner often becomes a customer of the formal business. Those who felt that the volume of sales

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decreased said so because informal business owners, in their opinion, charge cheaper prices and are more conveniently situated since people walk right past them on the pavement.

As far as the effect that having informal businesses in the vicinity had on the image of the formal business is concerned, again both positive and negative views were expressed. Positive effects were that more customers were attracted to the area through the existence of informal businesses, while negative effects noted were the untidiness of the informal sector and the belief that these businesses cause obstructions by blocking driveways, for example. This situation, in the opinion of some formal business owners, drives customers away.

Regarding the effects of the informal sector on the prices that formal business owners charge, some formal business owners said that informal businesses encourage healthy competition, while others said that informal businesses charge cheaper prices, thus unfairly attracting customers away from them.

Two different sets of opinions, positive and negative, were again expressed in relation to whether or not having an informal business in the immediate vicinity of a formal one affects the type of products that were sold. Those that gave positive effects indicated that formal businesses can sell the type of products that informal business owners require, thus increasing the range of goods they can sell. They also mentioned that this situation encouraged the formal business owner to sell better quality products. On the other hand, those who mentioned negative effects said that informal businesses sell the same products, but they have fewer expenses. Formal business owners therefore made less profit.

These divergent views indicate that perceptions and attitudes have a direct influence on whether or not an informal business is accepted by a formal business owner.

People with more positive attitudes are more likely to be aware of the benefits that can result from having informal businesses in the immediate vicinity. The healthy competition and the possible co-operation between the two sectors were stressed. On the other hand, those with negative attitudes were likely to emphasise the weaknesses of the informal sector (for example, untidiness), while at the same time feeling threatened by these businesses and fearing a loss of customers.

Another question in relation to competition that was asked was whether or not the respondents thought that informal businesses actually offered any direct competition to formal business owners (Table 5.16a). It is significant to note that relatively few formal business owners (29 %) viewed informal ones as their direct competitors.

Reasons given for seeing informal business owners as offering direct competition (Table 5.16b) are similar to the negative effects mentioned by the respondents of having informal businesses in the immediate vicinity that were previously discussed. Thus thirty respondents perceived that informal business owners take customers away, negatively affect profits, sell similar products at cheaper prices and undercut formal businesses by having fewer overhead costs.

On the other hand, those who said that informal businesses were not competitors indicated that these businesses attract people to the area, while at the same time both informal business owners and their customers also support the formal businesses. Informal businesses were also perceived as selling different or inferior products or as being insignificant competitors. The need for healthy competition or co-operation was also stressed by some respondents.

On the basis of these findings one can recommend that training should aim at pointing out to formal business owners that there are benefits to both parties regarding having informal businesses in the immediate vicinity of formal ones and for the two sectors to compete with each other. A potentially larger pool of customers is brought into the area which can help both businesses.

On the other hand, the need for informal sector business owners to receive training to help them to improve the appearance and neatness of their business is again stressed.

5.10.2 Co-operation between formal and informal sector businesses

As far as future co-operation between the two sectors is concerned (Table 5.17), half the respondents (51 %) indicated that they were prepared to work together with informal business owners, while an even larger proportion (74 %) indicated that they were prepared to help informal business owners.

This willingness to help has training implications. Formal business owners can act as mentors of informal ones. In Chapter 3, we already noted that informal business owners may go to a previous employer or to a formal business for advice and help. This pattern of mentorship can be extended. If a formal business owner sells something to an informal one, for example, suggestions can be made on ways in which the customer can best use the product. Advice can also be given regarding running the business. Some training organisations and development agencies have already introduced mentorship programmes for training small business owners. For example, retired businessmen or people seconded from the private sector are used as mentors. This type of programme can be extended to include the informal sector. However, such a mentor should be aware of the specific circumstances in which the informal business functions. Mentorship should be related to the actual problems and needs of the informal business owner.

5.11 POSSIBLE TRAINING AND EDUCATION IMPLICATIONS

Many of the findings of this chapter support some of the previous training needs that have already been discussed. Some additional training needs were also identified, and some training needs that have already been mentioned need to be restated, since they have been viewed from a different perspective. These are discussed below.

- Many people, including the poorly educated, the ill, the disabled and the aged, survive through running an informal business. These people will find it extremely difficult to move out of the informal sector into the formal one. Training is however needed for these people to enable them to run their businesses so that they can generate more income through them.

- Those informal business owners who have the potential to allow their business to grow and develop should be made aware of the benefits of becoming a formal business.

- There are certain training needs which are more applicable to formal businesses than informal ones. An informal business owner wishing to enter a formal business may therefore need additional training. A re-exploration of the need in the community for the product or service may have to be undertaken.

- If an informal business owner wishes to enter the formal sector, more training in terms of employee relations may be needed, as well as training on how to teach employees to perform specific tasks constituting the business.

- In addition, informal business owners entering the formal sector will need to be prepared to gain information and training through different methods. Both technical and business skills in the formal sector can be acquired through reading matter. Information on the availability and sources of this reading matter can be included as part of training for prospective formal business owners.

- Training needs to be built on existing knowledge, experience and skills in both the formal and informal sectors.

- Regarding family involvement in the businesses, informal business owners need to be encouraged to involve more members of the family. Training modules can be developed round ways in which family members can help for mutual benefit.

- As far as the existing formal businesses and their owners' support of the informal sector is concerned, training and education programmes can build on the goodwill that already exists between the two sectors. The mass media can be used to point out the extent to which this goodwill already exists and how it can be augmented.

- Education programmes should encourage contacts to be established between the two sectors, since interactions lead to shared values and norms.

- Advertising campaigns promoting buying informal sector products and services which can be used in formal businesses need to be launched. The idea of subcontracting work out to the informal sector can also be put across.

- However, informal sector business owners will need skills training to enable them to make a consistently better quality product or else to offer a consistent standard of service.

- Informal business owners need more training in how to market their products and services so that formal business owners are seen as target groups.

- Formal business owners need to be made aware that there can be benefits if there are informal businesses operating in the vicinity of formal ones. More customers can be attracted to the area, and the informal business owner is also a potential customer.

- On the other hand, training in standards of hygiene and tidiness for informal business owners are again apparent.

- Formal business owners can act as role models for informal business owners.

- Formal business owners can also play a training role by acting as mentors of informal business owners.

- Informal business owners need training modules to be developed around how to obtain credit and on how to plan for repayment of debts.

TABLE 5.1

GEOGRAPHICAL DISTRICT FROM WHICH FORMAL BUSINESS OWNERS WERE DRAWN ACCORDING TO POPULATION GROUP OF RESPONDENTS

Geographical district	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Johannesburg	5	7,0	3	30,0	2	18,2	2	15,4	12	11,4
Cape Town	7	9,9	1	10,0	2	18,2	3	23,1	13	12,4
Port Elizabeth	5	7,0	1	10,0	2	18,2	1	7,7	9	8,6
Durban	5	7,0	1	10,0	1	9,1	1	7,7	8	7,6
Bloemfontein	4	5,6	1	10,0	-	-	-	-	5	4,8
Newcastle	2	2,8	1	10,0	1	9,1	2	15,4	6	5,7
Nelspruit	5	7,0	1	10,0	-	-	1	7,7	7	6,7
George	4	5,6	1	10,0	1	9,1	-	-	6	5,7
Witbank	5	7,0	-	-	-	-	1	7,7	6	5,7
Pietersburg	5	7,0	-	-	-	-	-	-	5	4,8
Queenstown	4	5,6	-	-	-	-	1	7,7	5	4,8
Harrismith	5	7,0	-	-	-	-	-	-	5	4,8
De Aar	5	7,0	-	-	-	-	-	-	5	4,8
Upington	4	5,6	-	-	2	18,2	-	-	6	8,7
King William's Town	6	8,5	-	-	-	-	-	-	6	5,7
Ladysmith	-	-	-	-	-	-	1	7,7	1	0,9
TOTAL	71	100	10	100	11	100	13	100	105	100

TABLE 5.2

BIOGRAPHICAL DESCRIPTION OF THE OWNERS OF FORMAL BUSINESSES

Biographical description	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Sex										
Male	45	63,4	6	60,0	9	81,8	10	76,9	70	66,7
Female	26	36,6	4	40,0	2	18,2	3	23,1	35	33,3
TOTAL	71	100	10	100	11	100	13	100	105	100
(b) Age group										
24 - 29 years	8	11,3	1	10,0	2	18,2	4	30,8	15	14,3
30 - 36 years	20	28,2	2	20,0	3	27,3	2	15,4	27	25,7
37 - 42 years	16	22,5	2	20,0	1	9,1	3	23,1	22	21,0
43 - 51 years	15	21,1	2	20,0	2	18,2	2	15,4	21	20,0
52 - 73 years	12	16,9	3	30,0	3	27,3	2	15,4	20	19,1
TOTAL	71	100	10	100	11	100	13	100	105	100
(c) Highest class passed at school										
Std. 2 - 5	11	15,5	-	-	-	-	-	-	11	10,5
Std. 6 - 7	18	25,4	-	-	2	18,2	3	23,1	23	21,9
Std. 8 - 9	20	28,2	-	-	4	36,4	2	15,4	26	24,8
Matriculation	22	31,0	10	100	5	45,5	8	61,5	45	42,9
TOTAL	71	100	10	100	11	100	13	100	105	100
(d) Other education or training										
Yes	28	39,4	9	90,0	6	54,6	5	38,5	48	45,7
No	43	60,6	1	10,0	5	45,4	8	61,5	57	54,3
TOTAL	71	100	10	100	11	100	13	100	105	100

TABLE 5.3

DESCRIPTION OF THE FORMAL BUSINESSES ACCORDING TO THE POPULATION GROUP OF THE BUSINESS OWNERS

Description of business	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Type of business										
Trading - prepared food	7	9,9	2	20,0	-	-	-	-	9	8,6
Trading - ready made goods	32	45,1	1	10,0	6	54,6	9	69,2	48	45,7
Personal services	20	28,2	5	50,0	3	27,3	4	30,8	32	30,5
Manufacturing	4	5,6	1	10,0	1	9,1	-	-	6	5,7
Repair services	6	8,5	1	10,0	-	-	-	-	7	6,7
Building and construction	2	2,8	-	-	1	9,1	-	-	3	2,9
TOTAL	71	100	10	100	11	100	13	100	105	100
(b) Way of starting business										
Took it over	12	16,9	3	30,0	3	27,3	6	46,2	24	22,9
Started it self	59	83,1	7	70,0	8	72,7	7	53,8	81	77,1
TOTAL	71	100	10	100	11	100	13	100	105	100

TABLE 5.4

REASONS WHY FORMAL BUSINESS OWNERS STARTED THEIR BUSINESSES

Reasons	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
To provide needed goods and services	13	19,4	1	12,5	2	22,2	-	-	16	16,8
Earning more money	10	14,9	3	37,5	3	33,3	4	36,4	20	21,1
Independence	15	22,4	2	25,0	1	11,1	2	18,2	20	21,1
Respondent took over a family business	3	4,5	-	-	-	-	1	9,1	4	4,2
To support the family	7	10,4	-	-	1	11,1	1	9,1	9	9,5
Enjoyment of business	4	6,0	1	12,5	1	11,1	2	18,2	8	8,4
Respondent wanted a larger business than previous one	3	4,5	-	-	-	-	-	-	3	3,2
Opportunity to use skills and knowledge	5	7,5	1	12,5	1	11,1	1	9,1	8	8,4
Respondent could not find work	7	10,4	-	-	-	-	-	-	7	7,4
TOTAL	67	100	8	100	9	100	11	100	95	100

TABLE 5.5

HOW FORMAL BUSINESS OWNERS ACQUIRED TECHNICAL AND BUSINESS SKILLS

Acquiring skills	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) How respondents learned to perform the service/make the product on which business is based										
Previous experience	14	23,3	5	55,6	4	44,4	4	30,8	27	29,7
Training by attending courses	15	25,0	3	33,3	4	44,4	1	7,7	23	25,3
Self-instruction (reading books, magazines, pamphlets)	11	18,3	1	11,1	1	11,1	3	23,1	16	17,6
Took a chance	5	8,3	-	-	-	-	-	-	5	5,5
From family and friends	15	25,0	-	-	-	-	5	38,5	20	22,0
TOTAL	60	100	9	100	9	100	13	100	91	100
(b) How respondents learned to run a business										
Through family and relatives	19	26,8	-	-	1	11,1	6	46,2	26	25,2
General life experience	7	9,9	2	20,0	-	-	-	-	9	8,7
Self-instruction (reading books, magazines, pamphlets)	9	12,7	3	30,0	5	55,6	4	30,8	21	20,4
Training	5	7,0	2	20,0	2	22,2	2	15,4	11	10,7
Through actually running a business	16	22,5	1	10,0	-	-	-	-	17	16,5
Interest in business	15	21,1	2	20,0	1	11,1	1	7,7	19	18,5
TOTAL	71	100	10	100	9	100	13	100	103	100

TABLE 5.6

HUMAN RESOURCES AVAILABLE TO FORMAL BUSINESS OWNERS

Human resources	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Number of paid employees										
0	10	14,1	-	-	2	18,2	1	7,7	13	12,4
1	13	18,3	1	10,0	3	27,3	1	7,7	18	17,1
2	14	19,7	1	10,0	2	18,2	1	7,7	18	17,1
3	14	19,7	1	10,0	-	-	3	23,1	18	17,1
4 - 6	10	14,1	4	40,0	1	9,1	4	30,8	19	18,1
7 or more	10	14,1	3	30,0	3	27,3	3	23,1	19	18,1
TOTAL	71	100	10	100	11	100	13	100	105	100
(b) Family involvement in the business										
Yes	48	67,6	7	70,0	6	54,5	8	61,5	69	65,7
No	23	32,4	3	30,0	5	45,5	5	38,5	36	34,3
TOTAL	71	100	10	100	11	100	13	100	105	100
(c) If yes : Type of involvement of family members										
Selling	20	41,7	-	-	2	40,0	6	75,0	28	41,2
Contributing towards making the final product	11	22,9	4	57,1	1	20,0	1	12,5	17	25,0
Bookkeeping	11	22,9	3	42,9	-	-	-	-	14	20,6
Helping to run the business	4	8,3	-	-	1	20,0	-	-	5	7,4
Helping financially	2	4,2	-	-	1	20,0	1	12,5	4	5,9
TOTAL	48	100	7	100	5	100	8	100	68	100

TABLE 5.7

FORMAL BUSINESS OWNERS' PERCEPTIONS OF INFORMAL BUSINESSES

(a) Explanation of the term "informal business"

Perception of informal businesses	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Illegal or unlicenced business	41	58,6	2	20,0	3	30,0	4	30,8	50	48,5
Businesses operating differently from formal businesses	13	18,6	2	20,0	1	10,0	1	7,7	17	16,5
Unsophisticated businesses	9	12,9	6	60,0	4	40,0	5	38,5	24	23,3
Unstable/risky businesses	2	2,8	-	-	-	-	2	15,4	4	3,9
Run by highly motivated people	2	2,8	-	-	1	10,0	-	-	3	2,9
Do not know	3	4,3	-	-	1	10,0	1	7,7	5	4,9
TOTAL	70	100	10	100	10	100	13	100	103	100

(b) Ratings given regarding the contribution of the informal sector to

Contribution of informal sector	Population group									
	Black		White		Coloured		Indian		TOTAL	
	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd
Alleviation of unemployment	3,9	1,4	3,7	1,6	3,3	1,5	3,9	1,4	3,8	1,4
Improvement of people's living standards	3,7	1,5	4,4	1,0	3,3	1,2	3,5	1,1	3,7	1,4
The growth of South Africa's economy	3,4	1,5	3,6	1,2	3,6	1,2	3,5	1,0	3,4	1,4
The survival of unskilled people	3,9	1,4	3,0	1,6	2,5	1,5	3,5	1,2	3,6	1,5
The development of business skills in underpriviledged communities	3,4	1,4	3,8	1,2	3,1	1,4	3,5	1,1	3,4	1,3
The provision of needed goods and services	3,5	1,7	4,2	0,9	3,5	1,4	3,3	1,3	3,5	1,5

$\bar{X}$ = mean; sd = standard deviation

TABLE 5.8

USE MADE OF INFORMAL BUSINESSES BY FORMAL BUSINESS OWNERS IN THEIR PERSONAL CAPACITY

(a) Extent to which formal business owners had bought informal goods and services in the past year and their satisfaction with them

Population group of the respondent	Extent of support			Extent of satisfaction		
	N	$\overline{X}$	sd	N	$\overline{X}$	sd
Black	71	3,2	1,6	71	3,6	1,4
White	10	3,3	1,3	10	3,6	1,5
Coloured	11	3,0	1,5	11	3,6	1,6
Indian	13	2,3	1,3	13	3,2	1,5
TOTAL	105	3,2	1,6	105	3,5	1,5

$\overline{X}$ = mean; sd = standard deviation

(b) The type of goods or services formal business owners had bought in the past year from the informal sector in their personal capacity

Product/service	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Fruit and vegetables	16	22,5	2	20,0	4	36,4	6	46,2	28	26,7
Food and groceries	13	18,3	-	-	-	-	1	7,7	14	13,3
Clothing	5	7,0	2	20,0	1	9,1	1	7,7	9	8,6
Arts, crafts and manufactured goods	3	4,2	1	10,0	1	9,1	1	7,7	6	5,7
Personal services (e.g. hairdressing)	8	11,3	-	-	1	9,1	-	-	9	8,6
Hair care and beauty products	3	4,2	1	10,0	-	-	-	-	4	3,8
Repair services	11	15,5	2	20,0	1	9,1	-	-	14	13,3
Building and construction	2	2,8	-	-	-	-	-	-	2	1,9
Type of product/service not stated	10	14,1	2	20,0	3	27,3	4	30,8	19	18,1
TOTAL	71	100	10	100	11	100	13	100	105	100

TABLE 5.9

EXTENT TO WHICH FORMAL BUSINESS OWNERS BUY GOODS THAT THEY NEED FOR THE BUSINESS FROM THE INFORMAL SECTOR

	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Buying informal sector goods										
Yes	33	47,1	6	60,0	3	27,3	2	15,4	44	42,3
No	37	52,9	4	40,0	8	72,7	11	84,6	60	57,7
TOTAL	70	100	10	100	11	100	13	100	104	100
(b) If yes: Main type of goods* (N = 44 respondents)										
Basic materials (e.g. beads, dyes)	5	7,2	1	6,7	-	-	1	25,0	7	7,3
Furniture and equipment (e.g. chairs)	8	11,6	-	-	-	-	-	-	8	8,3
Manufactured goods (e.g. clothes)	21	30,4	2	13,3	1	12,5	-	-	24	25,0
Handicrafts (e.g. baskets, ornaments)	16	23,2	9	60,0	2	25,0	-	-	27	28,1
Groceries and foods (e.g. home baked cakes)	19	27,5	3	20,0	5	62,5	3	75,0	30	31,3
TOTAL	69	100	15	100	8	100	4	100	96	100
	Black		White		Coloured		Indian		TOTAL	
	$\bar{X}$**	sd**	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd
(c) If yes: Satisfaction with products	4,0	1,5	4,1	1,3	N is too small				4,0	1,4
(d) If no: Reasons for not buying informal sector products	N	%	N	%	N	%	N	%	N	%
(N = 60)										
Informal businesses do not have the required products	15	44,1	2	50,0	2	40,0	4	40,0	23	43,4
Informal businesses have poor quality products	5	14,7	2	50,0	1	20,0	3	30,0	11	20,8
Informal businesses are illegal	2	5,9	-	-	1	20,0	-	-	3	5,7
Informal businesses are expensive	5	14,7	-	-	-	-	1	10,0	6	11,3
Formal sector businesses are available	6	17,6	-	-	1	20,0	2	20,0	9	17,0
Respondent was never approached by informal business owner	1	2,9	-	-	-	-	-	-	1	1,9
TOTAL	34	100	4	100	5	100	10	100	53	100

$\bar{X}$ = mean; sd = standard deviation

* Each respondent who did buy goods could list up to three types of goods.

TABLE 5.10

EXTENT TO WHICH FORMAL BUSINESS OWNERS BUY THE SERVICES THEY NEED FOR THE BUSINESSES FROM THE INFORMAL SECTOR

	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Buying informal sector services										
Yes	37	52,1	5	50,0	6	60,0	8	61,5	56	53,9
No	34	47,9	5	50,0	4	40,0	5	38,5	48	46,1
TOTAL	71	100	10	100	10	100	13	100	104	100
(b) If yes: Type of services that were purchased*										
Building, construction & maintenance	30	50,0	3	23,1	1	16,7	6	54,6	40	44,4
Repairs	20	33,3	1	7,7	3	50,0	2	18,2	26	28,9
Printing (e.g. cards, pamphlets, posters)	5	8,3	5	38,5	1	16,7	1	9,1	12	13,3
Custom made items (e.g. burglar proofing, window frames)	4	6,7	2	15,4	1	16,7	2	18,2	9	10,0
Business services (e.g. flower arranging for business, cleaning of uniforms for business)	1	1,7	2	15,4	-	-	-	-	3	3,3
TOTAL	60	100	13	100	6	100	11	100	90	100
	Black		White		Coloured		Indian		TOTAL	
	$\overline{X}$**	sd**	$\overline{X}$	sd	$\overline{X}$	sd	$\overline{X}$	sd	$\overline{X}$	sd
(c) If yes: Satisfaction with these services	4,1	1,3	4,2	1,3	4,3	1,0	3,4	0,5	4,0	1,1
(d) If no: Reasons for not buying informal sector services	N	%	N	%	N	%	N	%	N	%
Services needed by the business are not available from the informal sector	5	18,5	-	-	2	50,0	-	-	7	17,9
Low quality workmanship	7	25,9	-	-	-	-	-	-	7	17,9
Business owner does repairs etc. himself	13	48,1	1	50,0	1	25,0	4	66,7	19	48,7
Illegal status of informal business	1	3,7	-	-	-	-	1	16,7	2	5,1
Preference for supporting the formal sector	1	3,7	1	50,0	1	25,0	1	16,7	4	10,2
TOTAL	27	100	2	100	4	100	6	100	39	100

$\overline{X}$ = mean; sd = standard deviation

* Each respondent could list up to three services

TABLE 5.11

SUBCONTRACTING WORK OUT TO THE INFORMAL SECTOR

(a) Subcontracting to informal sector

Subcontracting	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	8	11,6	5	50,0	1	9,1	2	15,4	16	15,5
No	61	88,4	5	50,0	10	89,9	11	84,6	87	84,5
TOTAL	69	100	10	100	11	100	13	100	103	100

(b) If no: reason for not subcontracting

Reason	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Cannot afford it	11	23,4	-	-	-	-	3	30,0	14	21,5
Business has no need to sub-contract work out	22	46,8	2	66,7	3	60,0	5	50,0	32	49,2
Low quality of work of informal sector	12	25,5	-	-	2	40,0	2	20,0	16	24,6
Respondent uses informal business for other purposes	2	4,2	1	33,3	-	-	-	-	3	4,6
TOTAL	47	100	3	100	5	100	10	100	65	100

TABLE 5.12

SELLING GOODS TO THE INFORMAL SECTOR

(a) Whether or not formal business owners were prepared to sell their products to the informal sector

Prepared to sell products	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	63	92,7	6	60,0	8	72,7	11	84,6	88	86,3
No	5	7,3	4	40,0	3	27,3	2	15,4	14	13,7
TOTAL	68	100	10	100	11	100	13	100	102	100

(b) Reasons given for being prepared/not being prepared to sell products to the informal sector

Willingness to sell products to the informal sector	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Positive reasons										
Helping the informal sector	10	17,9	-	-	-	-	1	8,3	11	13,3
Anyone can buy here	9	16,1	1	16,7	2	22,2	4	33,3	16	19,3
Informal business owners pay promptly	21	37,5	3	50,0	1	11,1	4	33,3	29	34,9
Products are needed by the informal sector	11	19,6	1	16,7	5	55,6	1	8,3	18	21,7
Subtotal	51	91,1	5	83,3	8	88,9	10	83,3	74	89,1
Negative reasons										
Dislike of the informal sector	3	5,4	-	-	1	11,1	1	8,3	5	6,0
Products are not needed by the informal sector	2	3,6	1	16,7	-	-	1	8,3	4	4,8
Subtotal	5	8,9	1	16,7	1	11,1	2	16,7	9	10,8
TOTAL	56	100	6	100	9	100	12	100	83	100

TABLE 5.13

SELLING SERVICES TO THE INFORMAL SECTOR

(a) Whether or not formal business owners were prepared to sell their services to the informal sector

Prepared to sell services	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	46	67,7	6	60,0	7	70,0	9	69,2	68	67,3
No	22	32,3	4	40,0	3	30,0	4	30,8	33	32,7
TOTAL	68	100	10	100	10	100	13	100	101	100

(b) Reasons given for being prepared/not being prepared to sell services to the informal sector

Willingness/unwillingness to sell services to the informal sector	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Positive reasons										
The business caters for everyone	18	34,0	3	37,5	1	14,3	3	25,0	25	31,3
Informal business owners pay promptly	9	17,0	3	37,5	3	42,9	2	16,7	17	21,3
The service offered is needed by informal business owners	9	17,0	-	-	3	42,9	4	33,3	16	20,0
Subtotal	36	67,9	6	75,0	7	100	9	75,0	58	72,5
Negative reasons										
Dislike of the informal sector	2	3,8	2	25,0	-	-	1	8,3	5	6,3
Services are not needed by the informal sector	15	28,3	-	-	-	-	2	16,7	17	21,3
Subtotal	17	32,1	2	25,0	-	-	3	25,0	22	27,5
TOTAL	53	100	8	100	7	100	12	100	80	100

TABLE 5.14

SPECIAL TERMS OR FORMS OF PAYMENT AMONG RESPONDENTS WHO ARE PREPARED TO SELL PRODUCTS AND/OR SERVICES TO THE INFORMAL SECTOR

Special terms/ Forms of payment		Population group									
		Black		White		Coloured		Indian		TOTAL	
		N	%	N	%	N	%	N	%	N	%
Paying on consignment	Yes	21	31,3	3	42,9	2	25,0	4	36,4	30	32,3
	No	46	68,1	4	57,1	6	75,0	7	63,6	63	67,7
TOTAL		67	100	7	100	8	100	11	100	93	100
Putting down a lay-by	Yes	19	28,4	1	14,3	2	25,0	1	10,0	23	25,0
	No	48	71,6	6	85,7	6	75,0	9	90,0	69	75,0
TOTAL		67	100	7	100	8	100	10	100	92	100
Opening an account	Yes	19	28,4	2	28,6	1	12,5	2	18,2	24	25,8
	No	48	71,6	5	71,4	7	87,5	9	81,8	69	74,2
TOTAL		67	100	7	100	8	100	11	100	93	100
Giving discounts	Yes	31	47,0	4	57,1	5	62,5	8	72,7	48	52,2
	No	35	53,0	3	42,9	3	37,5	3	27,3	44	47,8
TOTAL		66	100	7	100	8	100	11	100	92	100
Hire purchase	Yes	6	9,0	-	-	1	12,5	-	-	7	7,5
	No	61	91,0	7	100	7	87,5	11	100	86	92,5
TOTAL		67	100	7	100	8	100	11	100	93	100

TABLE 5.15

THE EFFECTS OF HAVING INFORMAL BUSINESSES IN THE SAME VICINITY AS FORMAL BUSINESSES

(a) Are there informal businesses in the immediate vicinity?

Informal businesses in the vicinity	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	43	60,6	7	70,0	6	54,6	8	61,5	64	61,0
No	28	39,4	3	30,0	5	45,4	5	38,5	41	39,0
TOTAL	71	100	10	100	11	100	13	100	105	100

(b) If yes : ways in which businesses are affected

Area of impact	Respondents who agreed that informal businesses actually had an effect		Way in which formal businesses were affected			
	N	%*	Positive effects	N	Negative effects	N
Volume of sales	15	23,4	Volume of sales is increased by supplying informal sector with goods or services that they need	3	Volume of sales is decreased because - informal business owners charge cheaper prices - informal businesses are more conveniently situated	12
Image of the business	9	14,1	Informal business owners attract customers to the area	2	Untidiness or obstructions caused by informal business drives customers away	7
The prices that formal businesses charge	18	28,0	Informal business owners encourage healthy competition	3	Informal businesses charge cheaper prices negatively affecting normal business price structures	15
The type of product that formal businesses sell	9	14,1	(a) Formal businesses sell the type of products that informal business owners need (b) Formal businesses sell better quality products	4	Informal and formal businesses sell the same products, while formal business owners have more expenses, thus negatively affecting profits	5

* Percentage of all those respondents who had informal businesses in their vicinity - each area is considered separately.

TABLE 5.16

COMPETITION OFFERED TO FORMAL BUSINESSES BY THE INFORMAL SECTOR

(a) Informal sector owners are seen as competitors

Competitors	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	21	30,0	2	20,0	4	36,4	3	23,1	30	28,9
No	49	70,0	8	80,0	7	63,6	10	76,9	74	71,1
TOTAL	70	100	10	100	11	100	13	100	104	100

(b) Reasons for seeing/not seeing informal business owners as competitors

They are competitors	N	%	They are not competitors	N	%
They take customers away	10	33,3	They help to attract people to the area	3	4,9
They negatively affect profits	9	30,0	Competition is healthy	6	9,8
They sell similar products	2	6,7	They support formal businesses	5	8,2
They charge cheaper prices	5	16,7	They sell different products	20	32,7
They have fewer overhead costs	4	13,3	They are insignificant	12	19,7
			Formal sector products are better	8	13,1
			Customer relations are good in the formal business	3	4,9
			We work together	4	6,6
TOTAL	30	100		61	100

TABLE 5.17

POSSIBLE FUTURE WAYS OF CO-OPERATING WITH THE INFORMAL SECTOR

Ways of co-operation		Population group									
		Black		White		Coloured		Indian		TOTAL	
		N	%	N	%	N	%	N	%	N	%
Readiness to work together with informal businesses	Yes	34	47,9	7	70,0	6	54,6	6	46,2	53	50,5
	No	37	52,1	3	30,0	5	45,5	7	53,8	52	49,5
TOTAL		71	100	10	100	11	100	13	100	105	100
Readiness to help informal businesses	Yes	47	67,1	10	100	10	90,9	10	76,9	77	74,0
	No	23	32,9	-	-	1	9,1	3	23,1	27	26,0
TOTAL		70	100	10	100	11	100	13	100	104	100

CHAPTER 6

SUPPLIERS AND THEIR VIEWS ON INFORMAL BUSINESSES

6.1 INTRODUCTION

Most businesses need reliable and competitively priced sources of supplies. For example, a fruit and vegetable vendor can obtain supplies from a farmer, a fresh produce market, a fruit and vegetable wholesaler, a supermarket or chain store, a greengrocer or even from another informal business. The cheaper the supplies that can be bought, the more competitive the prices that this vendor can charge. Access to supplies is therefore an important issue to examine in relation to the need for training to encourage the development of the informal sector.

This access is controlled by suppliers. They can decide whether or not to allow informal business owners to buy from their businesses, what prices to charge and whether or not credit can be granted.

In this chapter, attention is focused on a group of suppliers and their perceptions of, and dealings with, informal business owners.

6.2 AIMS OF THE STUDY AS SPECIFICALLY APPLIED TO SUPPLIERS

This part of the study therefore aimed to

- give a description of the type of businesses that were regarded as being supply businesses for the purpose of this investigation.
- explore the ways in which the managers or owners of these businesses viewed the informal sector.
- determine the extent to which they were prepared to sell their goods to informal business owners.
- determine whether or not they offered credit or special repayment facilities to informal business owners.
- determine whether or not they offered a delivery service.
- explore the extent to which they provide informal sector business owners with information and advice about their businesses and their products.
- use this information to determine how training, to encourage the development of the informal sector, can take the supplier into account.

6.3 DESCRIPTION OF THE SUPPLIERS' BUSINESSES

The type of business that was regarded as being a supply business was based on the type of supplies the informal business owners indicated that they needed. Businesses in the area or as near to the area as possible, offering these types of goods, were located and interviews were held with their managers or owners.

The geographical districts (Table 6.1) were therefore the same as those from which the informal business owners were drawn. Altogether, 75 interviews were held with suppliers in central business districts (25 %), in industrial areas (13 %), in white residential areas (17 %) and in or near black, coloured or Indian townships (45 %).

As far as type of business is concerned (Table 6.2), general wholesalers formed almost a quarter (24 %) of the sample and so did small retailers selling food, groceries and clothing and other items and trinkets that could be sold by informal vendors (23 %). In addition, wholesalers selling specific products such as building materials formed another 14 % of the sample.

Informal suppliers (9 %), managers of large retail outlets such as chain stores (7 %) and of fresh produce outlets (9 %), distributors selling motor car spares for example (6 %) and manufacturers (6 %) were also interviewed. In this way, a wide range of businesses that could act as suppliers or as potential suppliers to informal business owners were included in the study.

More than half (59 %) of these businesses were independent concerns, although a large group (41 %) were part of a larger organisation (Table 6.3). Even among the informal suppliers that were interviewed, some respondents (44 %) indicated that they were part of a larger group of suppliers. This may be due to the fact that a dealer may employ, or have contract arrangements with others in the informal sector (runners) to sell to other businesses in an area or in other areas.

Groceries, food and beverages were the most common type of products (45 %) that were sold by the suppliers, although a wide range of other goods were also sold (Table 6.4).

Regarding the number of customers, on average, that bought from the suppliers per day (Table 6.5), more than half (57 %) of the respondents indicated that they had dealings with 120 or fewer customers. This finding indicates the smallness of size of some of the businesses or else the specialised nature of their products.

More than half the suppliers (53 %) indicated that the majority of their customers were black (Table 6.5b), which is in keeping with the way in which the businesses in a specific area were selected for participation as suppliers in this investigation.

6.4 PERCEPTIONS OF INFORMAL BUSINESSES

The way in which this wide range of potential or actual suppliers perceived the informal sector could have influenced any dealings between the two parties. The respondents were therefore asked to give a description of a typical informal business. Once this was done, the fieldworkers read the description of this sector, as it was understood in this research project (see Chapter 1), to the suppliers. They were then asked to describe the best and worst aspects of dealing with both formal and informal businesses. The responses given to these questions are described below.

6.4.1 Describing a typical informal business

When asked to describe a typical informal business (Table 6.6) the suppliers were likely to focus on a specific type of business. For example spaza shops (18 %), hawkers and vendors (15 %), hairdressers (4 %) and alcohol outlets (7 %) were mentioned. In addition, the limited range of goods (15 %), the type of premises (11 %) and the struggle for survival (8 %) were also mentioned.

In contrast to owners of small formal businesses (Chapter 5), relatively few suppliers (7 %) mentioned the unregistered or unlicenced nature of these businesses when describing them. It thus seems as if potential or actual suppliers are less concerned about the *"illegitimate"* nature of informal businesses than those who may be in direct competition with them.

Some of the descriptions given of informal businesses, namely the limited range of goods, the type of premises and the survival nature of a number of them are in essence the same as the weaknesses of this sector as pointed out by the customers (Chapter 4). The need to improve these aspects among informal business owners through training is again apparent.

6.4.2 The best and worst aspects of dealing with formal and informal businesses

To further probe their perceptions of informal businesses, the suppliers were asked to indicate what the best and worst aspects were of dealing with a formal and with an informal business owner.

Regarding the best aspects of dealing with formal business owners (Table 6.7a), the suppliers were likely to pinpoint their ability to pay according to agreements (21 %), their better management (16 %), the larger quantities that they buy (13 %) and their stability and predictability (15 %).

On the other hand, informal business owners (Table 6.7b) were praised for increasing the volume of business for suppliers (23 %), paying cash (17 %), being loyal customers (15 %) and catering for the unique needs of their own individual customers (9 %).

Regarding the worst aspects of dealing with formal business owners (Table 6.7c) the competitive (13 %) and demanding (12 %) nature of these business owners and their insistence on discounts (11 %) were most frequently mentioned, although a quarter of the respondents indicated that there is nothing wrong in dealing with formal business owners.

As far as the worst aspects of dealing with informal business owners are concerned (Table 6.7d), a surprisingly large number of respondents (39 %) said that there was nothing wrong with dealing with these owners. Among those that did mention negative aspects, however, the responses focused mainly on the lack of management skills in this sector (15 %), difficulties regarding obtaining payment from informal business owners (11 %), the risks involved in doing business with informal business owners (8 %), the small quantities that they buy (7 %) and the small amount of money that these business owners can earn (7 %).

6.4.3 Conclusions

From these research findings it is apparent that, on the whole, the suppliers had rather favourable perceptions of informal businesses. They indicated that an increasing number of loyal customers who pay cash will become available to them in future. But the same weaknesses as those identified by the other groups of respondents were again mentioned. The training needs regarding running a business efficiently, taking stock, knowledge of principles of repayment and keeping a wider range of products in stock are again apparent. The importance of developing training modules around these weaknesses so that the risk involved in doing business with informal owners is minimised, again needs to be emphasised.

6.5 THE SUPPLIERS' CUSTOMERS

Although the suppliers had relatively positive perceptions of the informal sector, whether or not these perceptions related to having informal business owners as customers needed to be studied. In this section, the extent to which informal business owners could actually buy products from suppliers is therefore investigated. Firstly, the extent to which anyone could buy from the various suppliers will be examined. Then the issue of who could buy, namely owners of formal businesses, of informal businesses and individual customers will be discussed. In addition, the extent to which the informal sector was regarded as a potential target market for suppliers and whether or not advertising was directed at this sector, will be determined.

6.5.1 Whether or not anyone could buy from the suppliers

Regarding who could actually buy from their businesses, most of the suppliers (71 %) in the sample indicated that anyone could do so (Table 6.8). Concerning the general wholesalers who were interviewed however, more than half (53 %) said that buying was restricted to certain customers who met their criteria.

Among all those suppliers who had indicated that certain criteria had to be met before a customer could buy from them, the following were mentioned:

- Customers must have a business licence or a general sales tax number.
- They must have good credit references.
- They should be over the age of 18 years (liquor outlets).
- They should have the full amount to pay in cash.
- They are required to buy in bulk quantities.
- They should have a buying card.
- They are required to have their own transport (cash and carry businesses).

Informal business owners also had access to certain suppliers indirectly if they took the following actions:

- Buying the products they needed through another formal business; getting the formal business to *"front"* for them.
- Finding another customer of the supplier who could introduce them to the supplier as reliable customers.
- Obtaining their goods through buying associations.
- Obtaining buying contracts through other organisations.

From these findings it seems as if the informal business owner who buys in small quantities and who cannot produce credit references will have extreme difficulties in gaining access to certain suppliers. Formal businesses would have advantages over informal ones when dealing with these suppliers, since they do have business licences, general sales tax numbers and credit references. They are also more likely to be able to buy in bulk quantities.

In Chapter 3 it was indicated that a large proportion (30 %) of informal business owners were buying their supplies from retail outlets and that a large proportion of the black informal business owners (26 %) experienced problems in obtaining supplies. The lack of access to some suppliers, as indicated in this chapter, confirms the earlier findings. One reason why informal business owners run out of stock, have a limited range of goods and have varying prices may lie in the lack of easy access to cheaper supplies. Training needs to be directed at suppliers generally and wholesale suppliers in particular to accept informal business owners as customers.

Again, the need for co-operative buying organisations to develop within the informal sector is clearly recognised. To train managers of bulk buying co-operatives is important since "... *a bulk buying co-operative will fail if it cannot either provide a service which (others) are not providing or if it cannot produce that service equally effectively*" (Jaffee 1988:75).

6.5.2 The informal sector as a potential target market for suppliers

The present situation indicates that it is difficult for informal business owners to gain access to certain, but not all suppliers. On the other hand suppliers may be aware of the growth taking place in the informal sector and they may therefore view this sector as a potential target market for future sales. When asked whether they viewed the informal sector in this way, more than three quarters of the respondents (77 %) indicated that they did (Table 6.9a).

The main reason given for regarding the informal sector as a potential target market (Table 6.9b) was that this sector has the potential to grow and to be successful (22 %). The loyalty of informal business owners as customers (16 %) and the demand that exists among these owners for the products sold by the supplier (11 %) were also stressed.

This optimistic picture of the future development of the informal sector is encouraging because it shows that good working relationships can develop between informal business owners as customers and the suppliers. Education programmes directed towards suppliers generally and wholesalers in particular are needed to inform these people of the potential development of informal businesses and the growing need that there will be for cheaper supplies.

6.5.3 Advertising to the informal sector

Although the potential strengths of the informal sector to develop as future customers was recognised by most suppliers, relatively few of the respondents (29 %) were directing any advertising at this sector at the time of the study (Table 6.10a).

The main reasons given for not doing so (Table 6.10b) were that the business does not actually advertise (28 %) or else that advertising is directed at everyone through the mass media (26 %).

6.5.4 Conclusions

The need to encourage advertising to be directed at the informal sector has therefore not been fully recognised. In view of the awareness among suppliers of the potential business relationships that can be built up between themselves and informal business owners, it seems likely that suppliers will be open to training to enable them to acquire skills regarding both marketing and advertising to the informal sector. Training modules could therefore be developed for suppliers along these lines.

The informal business owners in turn need training regarding the most cost-effective ways of obtaining supplies. In many larger businesses, buying is a specialised function, indicating the importance of expertise on how to obtain the best supplies. Modules for training along these lines therefore need to be developed to encourage informal business owners to find information on alternative sources of supply and to choose suppliers that meet their needs based on this knowledge.

6.6 THE EXTENT TO WHICH SUPPLIERS OFFER CREDIT AND SPECIAL PAYMENT FACILITIES FOR INFORMAL BUSINESS OWNERS

As we have already noted, one reason given by suppliers for being willing to have informal business owners as customers was their readiness to pay cash for the goods that they buy. However, in Chapter 5 it was indicated that the viability of a business often depends on the ability of the owner to obtain credit. Braudel (1982:73) in a book on the history of commerce, indicates that in the past, the principal reason for the development of shops was credit. "*One step up from the shops, the wholesaler granted credit; the retailer had to pay what we would today call installments. In turn, the shopkeeper himself granted credit to customers: The tailor gave credit; the baker gave credit, recorded on two pieces of wood which were marked simultaneously with chalk.*" The extent to which informal business owners could obtain credit from the suppliers was therefore probed in this study. The suppliers were asked to indicate whether or not they offered credit to customers as well as any other forms of payment facilities that they offered to them. Their responses are discussed in the following sections.

6.6.1 Offering credit to customers

As far as offering credit to customers is concerned, it is relevant to note that those businesses such as wholesalers to which informal business owners had less access, were more likely to offer credit to customers. In general (Table 6.11), almost equal numbers of respondents were likely to grant credit to customers (52 %) as those who were not likely to do so (48 %). General wholesalers (59 %), wholesalers selling specialised goods (60 %), manufacturers (60 %) and informal suppliers (67 %) were more likely to offer credit in comparison to large (40 %) and small (38 %) retailers and fresh produce outlets (33 %).

6.6.2 Types of payment facilities

As far as special payment facilities are concerned, in general there were relatively few arrangements being made for either formal or informal business owners or for individual customers (Table 6.12; Figure 6.1), to be able to pay later after purchasing the goods. However, perhaps all ways of paying later were not fully explored in the study.

6.6.3 Problems with repayment by informal business owners

Although it appears as if the suppliers were reluctant to give credit to informal business owners, a relatively small proportion (21 %) indicated that they had experienced problems regarding repayment by informal business owners in the past (Table 6.13). Among the various groups of suppliers, the informal ones (44 %) were most likely to say that they had experienced problems.

The type of problems that were experienced included late payments, **"bounced"** cheques, inability to pay, broken agreements and the disappearance of people when money is owed.

6.6.4 Conclusions

The need for training of informal business owners to enable them to manage a cash flow, to budget, to plan repayments and to manage money so that debts can be repaid is again apparent. However, as pointed out in Chapter 3, and as Braudel (1982) indicated in his study of the history of commerce, idiosyncratic ways of keeping count of money are often effective. These idiosyncratic ways (for example the drinker at a tavern chalking up his bill on the wall: Braudel 1982:73) which informal business owners have devised to keep count of cash, need to be borne in mind when developing training policies. The aim should be to build on existing methods rather than substituting these with entirely new ones. Formal bookkeeping methods should be introduced gradually, as and when they are applicable.

From the suppliers' side the reluctance to give credit needs to be noted. The role that training can play in this regard is one of encouraging suppliers to grant credit facilities to informal business owners, but the granting of this credit should be based on having had reliable dealings in the past with a specific customer, so that trust between the supplier and the informal business owner can be built up.

6.7 DRAWING UP CONTRACTS WITH INFORMAL BUSINESS OWNERS

Entering into more permanent business arrangements with informal business owners is one way in which trust can be built up, while entering into contracts is a method of establishing more permanent business arrangements. However, relatively few suppliers (20 %) had actually had any contractual arrangements with informal business owners. Almost all who had done so, however, were likely to be very satisfied with these arrangements and to feel that informal business owners understood the conditions of the contract.

Training for both informal business owners and suppliers can encourage the development of more permanent business arrangements, including contractual ones, to occur.

6.8 OFFERING A DELIVERY SERVICE TO CUSTOMERS

It was noted in Chapter 3 that one of the most difficult challenges facing informal business owners concerned gaining access to transport for the business. The extent to which suppliers offered a delivery service could therefore, at least to some extent, help the informal business owners to ensure that the supplies that they needed arrived at the business site on time.

Among the suppliers participating in this study (Table 6.14a), just over half (56 %) indicated that they offered a delivery service. This service was likely to be made available to informal business owners rather than to formal ones or to individual customers (Table 6.14b).

Among those who did offer a delivery service, the following problems were experienced.

- Problems with cash on delivery payments.
- Difficulties in arranging convenient delivery times for both parties.
- Difficulties that occur when the business owner is not there to take delivery of goods.
- Fear among drivers of entering black group areas.
- Strikes and stayaways among drivers.

6.8.1 Conclusions

One way to overcome these problems is to encourage the development of delivery businesses within the informal sector. Certain large businesses have already tried out various subcontracting delivery schemes with people who were previously employed as drivers, to ensure that there is a more efficient delivery service. On the whole, these schemes have been successful. Training for suppliers, through education programmes, can encourage the development of these types of subcontracting arrangements for deliveries.

The possibility of co-operative arrangements regarding hiring transport or else even buying vehicles through an association has already been muted. Informal business owners can form co-operatives to share the costs of hiring vehicles or even of buying one and maintaining it.

Training for informal business owners needs to take the possibility of alternative transport arrangements into account. The advantages and disadvantages of specialised transport businesses and

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of co-operative arrangements for transport can form the contents of a module.

The taxi industry, as we have noted in Chapter 3 is already involved in deliveries. This role can also be encouraged.

6.9 GIVING INFORMATION AND ADVICE TO INFORMAL BUSINESS OWNERS

The exchange of information on products, services and special promotions plays an important part in any business relationship. Dealings between formal and informal business owners are no exception. Therefore the exchange of information between suppliers and informal business owners was probed.

When asked whether or not they kept informal business owners informed regarding various developments in their businesses, namely new services, new products, special promotions and sales (Table 6.15a), two thirds of the respondents indicated that they did so. However, fewer respondents indicated that they kept informal business owners informed regarding sales (57 %) than they did concerning other products or services.

The giving of advice to informal business owners regarding the types of products and the quantities to buy, alternative sources of supply if the dealer does not stock something, methods of payment and conditions of contracts is another important role that the supplier can play. Through giving advice, confidence between the seller and the buyer is built up in any business relationship. For business owners in the informal sector however, such advice can play a dual role. Not only can this advice increase business confidence between the two parties, but the supplier can also play the role of mentor to informal business owners.

It is significant to note (Table 6.15b) that most suppliers said that they were already giving this type of advice to informal business owners. This applied particularly to giving advice regarding the type of products to buy (80 %), alternative sources of supply (76 %) and conditions of contracts (76 %). However, fewer respondents were giving informal business owners advice on quantities to buy (55 %) and on methods of payment available to them (55 %).

6.9.1 Conclusions

The exchange of information and advice between suppliers and informal business owners can be encouraged through training. Modules could be developed regarding the type of information and advice that informal business owners can reasonably ask the supplier to provide. Informal business owners need to be made aware of the importance of talking to various suppliers and obtaining information and advice from more than one source. Then they need to be able to evaluate this information and advice to ensure that they get the best deal from the supplier.

The suppliers, in turn, can be encouraged to supply this type of advice and information to informal business owners so that trust and confidence can be built up between them and better business relationships can be fostered.

6.10 POSSIBLE TRAINING AND EDUCATION IMPLICATIONS

The findings in this chapter indicated certain new training implications in addition to the ones that have already been identified. However, because certain training implications keep recurring, they will be mentioned again in addition to the new training needs identified in this chapter.

- Training modules for informal business owners need to be developed to enable them to manage their businesses more efficiently regarding keeping stock, selecting the range of goods to sell, ordering on time and planning.

- Informal business owners also need training regarding methods of repayment, how to plan to be able to pay off money that is owed, how to manage a cash flow and how to control the amount of money that is owed.

- Ways in which to enable the informal business owner to buy in bulk and to keep a wider range of goods in stock need to be found. This may mean the encouragement of the development of co-operative buying schemes among informal business owners. Training modules round the development of co-operatives can be introduced.

- If co-operatives for buying are developed, people managing them will also need training. These co-operatives will need to be based on the same business principles as any other business.

- As far as the suppliers are concerned, education programmes can be directed at them regarding the advantages of having informal business owners as customers.

- Suppliers may need training regarding ways in which to market and advertise to informal businesses if they wish to expand their businesses.

- Informal business owners in turn will need training to enable them to evaluate the different supply outlets and which of these are most suited to and most cost-effective for their business. Modules around buying skills can be developed.

- Suppliers, in turn, need to be encouraged regarding giving credit to informal business owners, based on relationships of trust that have already been built up between themselves and their informal customers.

- The need to establish more permanent buying arrangements between suppliers and informal business owners needs to be seen as part of a training strategy. Such arrangements allow trust and confidence to develop between the participants. Entering into verbal and if necessary written contracts with suppliers is one way of forming more permanent arrangements. Training modules focusing on what should be contained in a contract with a supplier can be developed.

- The encouragement of the development of alternative delivery services can be part of a training strategy. For example the facilitation of independent delivery businesses, co-operative transport arrangements or of the use of taxis can be brought about through education and training programmes regarding deliveries.

- The giving of information and advice by suppliers to informal business owners needs to be encouraged. Business owners can be taught what type of information and advice they can obtain from suppliers, while suppliers in turn can be encouraged to make this information and advice readily available to customers.

- The evaluation of this type of information and advice is an important training need and ways in which to do so can form part of a training module.

TABLE 6.1

GEOGRAPHICAL DISTRICT WHERE INTERVIEWS WITH SUPPLIERS TOOK PLACE

Geographical district	N	%
Johannesburg	12	16,0
Cape Town	10	13,3
Port Elizabeth	9	12,0
Durban	12	16,0
Bloemfontein	3	4,0
Newcastle	4	5,3
Nelspruit	4	5,3
George	3	4,0
Witbank	4	5,3
Pietersburg	2	2,7
Queenstown	3	4,0
Harrismith	2	2,7
De Aar	2	2,7
Upington	2	2,7
King William's Town	2	2,7
Ladysmith	1	1,3
TOTAL	75	100

TABLE 6.2

AREA IN WHICH SUPPLIER WAS SITUATED ACCORDING TO TYPE OF BUSINESS

Type of business	Industrial area		Central business district		White residential area		In or near a black, coloured or Indian township		TOTAL	
	N	%	N	%	N	%	N	%	N	%
General wholesaler	3	33,3	6	33,3			8	25,0	17	23,9
Wholesaler selling specific products	2	22,2	3	16,7	1	8,3	4	12,5	10	14,1
Manufacturer	1	11,1					3	9,4	4	5,6
Distributor	2	22,2			2	16,7			4	5,6
Large retailer			1	5,6	3	25,0	1	3,1	5	7,0
Small retailer	1	11,1	2	11,1	6	50,0	7	21,9	16	22,5
Fresh produce outlet			3	16,7			3	9,4	6	8,5
Farm or smallholding							1	3,1	1	1,4
Informal supplier			2	11,1			4	12,5	6	8,5
Other			1	5,6			1	3,1	2	2,8
TOTAL	9	100	18	100	12	100	32	100	71	100

TABLE 6.3

WHETHER OR NOT SUPPLIER WAS PART OF A LARGER ORGANISATION ACCORDING TO TYPE OF BUSINESS

Type of business		Part of a larger organisation				TOTAL	
		Yes		No			
		N	%	N	%	N	%
General wholesaler	N	6	19,4	11	25,0	17	22,7
	%	35,3		64,7		100	
Manufacturer	N	2	6,5	3	6,8	5	6,7
	%	40,0		60,0		100	
Wholesaler: specific products	N	4	12,9	6	13,6	10	13,3
	%	40,0		60,0		100	
Distributor	N	4	12,9			4	5,3
	%	100				100	
Large retailer	N	4	12,9	1	2,3	5	6,7
	%	80,0		20,0			
Small retailer	N	4	12,9	12	27,3	16	21,3
	%	25,0		75,0		100	
Fresh produce outlet	N			6	13,6	6	8,0
	%			100		100	
Farm or smallholding	N	1	3,2			1	1,3
	%	100				100	
Informal supplier	N	4	12,9	5	11,4	9	12,0
	%	44,4		55,6		100	
Other	N	2	6,5			2	2,7
	%	100				100	
TOTAL	N	31	100	44	100	75	100
	%	41,3		58,7		100	

TABLE 6.4

TYPE OF PRODUCTS THAT WERE SOLD BY SUPPLIERS

Products	N	%
Groceries, food and beverages	34	45,3
Prepared foods	2	2,7
Fruit and vegetables	6	8,0
Alcohol	7	9,3
Hair and beauty products	4	5,3
Clothing	4	5,3
Hardware and wood	5	6,7
Building materials	4	5,3
Fuels (gas, coal)	2	2,7
Motor car spares	1	1,3
Dress materials and wools	4	5,3
Leather goods	1	1,3
Electrical equipment and appliances	1	1,3
TOTAL	75	100

TABLE 6.5

DESCRIPTION OF THE CUSTOMERS OF THE SUPPLIERS

(a) Average number of customers per day

	Suppliers	
Average number of customers	N	%
40 or less	16	21,3
41 - 85	13	17,3
86 - 120	14	18,7
121 - 300	16	21,3
301 or more (maximum 4 500)	11	14,7
Unknown	5	6,7
TOTAL	75	100

(b) Population group of the majority of customers

	Suppliers	
Population group	N	%
White	7	9,3
Black	40	53,3
Coloured	2	2,7
Indian	7	9,3
All population groups	14	18,7
All population groups except whites	5	6,7
TOTAL	75	100

TABLE 6.6

SUPPLIERS' DESCRIPTION OF INFORMAL BUSINESSES

Description	N	%
Unregistered or unlicenced businesses	5	6,7
Businesses run from non-business premises	8	10,7
Hawkers, vendors or street traders	11	14,7
Spaza shops or similar arrangements	13	17,7
Businesses selling alcoholic beverages	5	6,7
Businesses having a limited range of goods	11	14,6
Hairdressers	3	4,0
Small businesses struggling to survive	6	8,0
Businesses making goods specifically for customers	2	2,7
Trustworthy people	2	2,7
Housewives keeping occupied	2	2,7
Do not know	7	9,3
TOTAL	75	100

TABLE 6.7

SUPPLIERS' PERCEPTIONS OF FORMAL AND INFORMAL BUSINESSES

(a) Best aspects of dealing with formal business owners

	N	%
The businesses are more stable and predictable	11	14,7
A wider range of goods is offered	2	2,7
Cheaper prices are offered	5	6,7
Legal procedures can be followed	4	5,3
Owners pay according to the agreements	16	21,3
Owners buy in large quantities	10	13,3
Formal sector businesses are managed better	12	16,0
Do not do business with formal businesses	5	6,7
Do not know	10	13,3
TOTAL	75	100

(b) Best aspects of dealing with informal business owners

	N	%
They can cater for the unique needs of the customer	7	9,3
Their prices are cheaper	2	2,7
They help the community	5	6,7
They are loyal customers	11	14,7
They bring a lot of business to suppliers	17	22,7
They pay cash	13	17,3
They are easily satisfied	5	6,7
Do not know	10	13,3
Do not deal with informal businesses	5	6,7
TOTAL	75	100

(c) Worst aspects of dealing with formal business owners

	N	%
Goods are expensive	3	4,0
Formal business owners are more demanding	9	12,0
Formal business owners do not always pay	15	20,0
Formal business owners insist on discounts	8	10,7
Dealings with formal business owners are impersonal	3	4,0
Formal business owners are highly competitive	10	13,3
Respondent does not deal with formal businesses	6	8,0
There is nothing wrong with formal businesses	19	25,3
Do not know	2	2,7
TOTAL	75	100

TABLE 6.7 (Continued)

SUPPLIERS' PERCEPTIONS OF FORMAL AND INFORMAL BUSINESSES

(d) Worst aspects of dealing with informal business owners

	N	%
They have a limited range of goods	2	2,7
Their goods are more expensive	3	4,0
It is risky to do business with them	6	8,0
The business owners earn very little money,	5	6,7
They buy in very small quantities	5	6,7
They do not always pay	8	10,7
They lack business management skills	11	14,7
Problems with deliveries to informal businesses	2	2,7
There is nothing wrong with dealing with informal businesses	29	38,7
Do not know	4	5,3
TOTAL	75	100

TABLE 6.8

WHETHER OR NOT ANYONE CAN BUY FROM THE SUPPLIER ACCORDING TO THE TYPE OF BUSINESS

Type of business		Anyone can buy				TOTAL	
		Yes		No			
		N	%	N	%	N	%
General wholesaler	N	8	15,1	9	40,9	17	22,7
	%	47,1		52,9		100	
Wholesaler: specific goods	N	7	13,2	3	13,6	10	13,3
	%	70,0		30,0		100	
Manufacturer	N	4	7,6	1	4,6	5	6,7
	%	80,0		20,0		100	
Distributor	N	3	5,7	1	4,6	4	5,3
	%	75,0		25,0		100	
Large retailer	N	4	7,6	1	4,6	5	6,7
	%	80,0		20,0		100	
Small retailer	N	12	22,6	4	18,2	16	21,3
	%	75,0		25,0		100	
Fresh produce outlet	N	5	9,4	1	4,6	6	8,0
	%	83,3		16,7		100	
Farm or smallholding	N	1	1,9			1	1,3
	%	100				100	
Informal supplier	N	8	15,1	1	4,6	9	12,0
	%	88,9		11,1		100	
Other	N	1	1,9	1	4,6	2	2,7
	%	50,0		50,0		100	
TOTAL	N	53	100	22	100	75	100
	%	70,7		29,3		100	

TABLE 6.9

THE INFORMAL SECTOR AS A POTENTIAL TARGET MARKET FOR SUPPLIERS

(a) Whether or not they were regarded as a target market

Type of business	Informal sector is a potential target market				TOTAL	
	Yes		No			
	N	%	N	%	N	%
General wholesaler	13	22,8	4	23,5	17	23,0
Wholesaler selling specific goods	6	10,5	3	17,7	9	12,2
Manufacturer	3	5,3	2	11,8	5	6,8
Distributor	3	5,3	1	5,9	4	5,4
Large retailer	4	7,0	1	5,9	5	6,8
Small retailer	12	21,1	4	23,5	16	21,6
Fresh produce outlet	4	7,0	2	11,8	6	8,1
Farm or smallholding	1	1,8			1	1,4
Informal supplier	9	15,8			9	12,2
Other	2	3,5			2	2,7
TOTAL N	57		17		74	
TOTAL %	77,0	100	23,0	100		100

(b) Reasons for believing they are/are not a target market

	N	%
Positive reasons		
Informal business owners are cash buyers	2	3,1
Informal business owners buy in relatively large quantities	5	7,8
Informal business owners buy frequently	4	6,3
There is a demand for the product among informal business owners	7	10,9
The informal sector has the potential to grow and be successful	14	21,9
Informal business owners are loyal customers	10	15,6
Specific advertising techniques are used to attract informal business owners	4	6,3
The business tries to attract all people as individual buyers	5	7,8
Subtotal	51	79,7
Negative reasons		
Informal business owners cannot buy directly from the business	4	6,3
It is risky to deal with informal business owners	3	4,7
Informal business owners buy a narrow range of goods	2	3,1
Informal business owners are direct competitors	4	6,3
Subtotal	13	20,3
TOTAL	64	100

TABLE 6.10

DIRECTING ADVERTISING AT THE INFORMAL SECTOR

(a) Whether or not advertising is directed at the informal sector

Type of business	Advertising directed at informal sector					
	Yes		No		TOTAL	
	N	%	N	%	N	%
General wholesaler	6	27,3	11	20,8	17	22,7
Wholesaler selling specific goods	3	13,6	7	13,2	10	13,3
Manufacturer	2	9,1	3	5,6	5	6,7
Distributor	2	9,1	2	3,8	4	5,3
Large retailer			5	9,4	5	6,7
Small retailer	2	9,1	14	26,4	16	21,3
Fresh produce outlet	3	13,6	3	5,7	6	8,0
Farm or small holding			1	1,9	1	1,3
Informal supplier	3	13,6	6	11,3	9	12,0
Other	1	1,3	1	1,9	2	2,7
N	22		53		75	
TOTAL %	29,3	100	70,7	100		100

(b) Reasons for/for not directing advertising at this sector

	N	%
Positive reasons		
Personal contacts are formed with informal business owners	2	3,4
Special promotions and discounts are offered to informal business owners	2	3,4
Pamphlets are handed out to informal business owners	5	8,6
Board outside shop e.g. "hawkers welcome"	6	10,3
Subtotal	15	25,9
Negative reasons		
Business does not advertise directly	16	27,6
The time is not yet ripe to attract informal business owners	3	5,2
Advertising is directed to everyone through the mass media	15	25,9
Advertising is done for everyone through a signboard	5	8,6
Advertising is handled by head office	2	3,4
The formal sector disapproves of the informal sector	2	3,4
Subtotal	43	74,1
TOTAL	58	100

TABLE 6.11

OFFERING CREDIT TO CUSTOMERS

Type of business		Does supplier offer credit?				TOTAL	
		Yes		No			
		N	%	N	%	N	%
General wholesaler	N	10	25,6	7	19,4	17	22,7
	%	58,8		41,2		100	
Wholesaler: specific goods	N	6	15,4	4	11,1	10	13,3
	%	60,0		40,0		100	
Manufacturer	N	3	7,7	2	5,6	5	6,7
	%	60,0		40,0		100	
Distributor	N	2	5,1	2	5,6	4	5,3
	%	50,0		50,0		100	
Large retailer	N	2	5,1	3	8,3	5	6,7
	%	40,0		60,0		100	
Small retailer	N	6	15,4	10	27,9	16	21,3
	%	37,5		62,5		100	
Fresh produce outlet	N	2	5,1	4	11,1	6	8,0
	%	33,3		66,7		100	
Farm or smallholding	N	1	2,6			1	1,3
	%	100				100	
Informal supplier	N	6	15,4	3	8,3	9	12,0
	%	66,7		33,3		100	
Other	N	1	2,5	1	2,8	2	2,7
	%	50,0		50,0		100	
TOTAL	N	39	100	36	100	75	100
	%	52,0		48,0		100	

TABLE 6.12

TYPE OF PAYMENT FACILITIES OFFERED BY SUPPLIERS

Type of payment		Informal business owners		Formal business owners		Individual customers	
		N	%	N	%	N	%
Paying on consignment	Yes	19	26,0	22	31,4	18	25,4
	No	54	74,0	48	68,6	53	74.6
TOTAL		73	100	70	100	71	100
Putting down a lay-by	Yes	21	28,8	20	28,6	18	25,4
	No	52	71,2	50	71,4	53	74,6
TOTAL		73	100	70	100	71	100
Opening an account	Yes	13	18,1	18	25,7	14	19,7
	No	59	81,9	52	74,3	57	80,3
TOTAL		72	100	70	100	71	100
Payment by instalment	Yes	18	24,7	21	30,0	12	16,9
	No	55	75,3	49	70,0	59	83,1
TOTAL		73	100	70	100	71	100
Discounts	Yes	43	58,9	40	57,1	38	53,5
	No	30	41,1	30	42,9	33	46,5
TOTAL		73	100	70	100	71	100
Hire purchase	Yes	5	6,8	6	8,6	4	5,6
	No	68	93,2	64	91,4	67	94,4
TOTAL		73	100	70	100	71	100

TABLE 6.13

WHETHER OR NOT SUPPLIERS HAD EXPERIENCED PROBLEMS WITH PAYMENT BY INFORMAL BUSINESS OWNERS IN THE PAST YEAR

Type of business		Problems with payment				TOTAL	
		Yes		No			
		N	%	N	%	N	%
General wholesaler	N	3	18,8	14	23,7	17	22,7
	%	17,6		82,4		100	
Wholesaler: specific goods	N	3	18,8	7	11,9	10	13,3
	%	30,0		70,0		100	
Manufacturer	N	1	6,3	4	6,8	5	6,7
	%	20,0		80,0		100	
Distributor	N	-	-	4	6,8	4	5,3
	%	-		100		100	
Large retailer	N	1	6,3	4	6,8	5	6,7
	%	20,0		80,0		100	
Small retailer	N	2	12,5	14	23,7	16	21,3
	%	12,5		87,5		100	
Fresh produce outlet	N	1	6,3	5	8,5	6	8,0
	%	16,7		83,3		100	
Farm or smallholding	N			1	1,7	1	1,3
	%			100		100	
Informal supplier	N	4	25,0	5	8,5	9	12,0
	%	44,4		55,6		100	
Other	N	1	6,3	1	1,7	2	2,7
		50,0		50,0		100	
TOTAL	N	16	100	59	100	75	100
	%	21,3		78,7		100	

TABLE 6.14

OFFERING A DELIVERY SERVICE

		N	%
(a) Do you offer a delivery service?	Yes	42	56,0
	No	33	44,0
TOTAL		75	100
(b) If yes (N = 42):			
(i) Delivery service for formal businesses	Yes	35	83,3
	No	7	16,7
TOTAL		42	100
(ii) Delivery service for informal businesses	Yes	39	92,9
	No	3	7,1
TOTAL		42	100
(iii) Delivery service for individual customers	Yes	32	76,2
	No	10	23,8
TOTAL		42	100

TABLE 6.15

GIVING INFORMATION AND ADVICE TO INFORMAL BUSINESS OWNERS

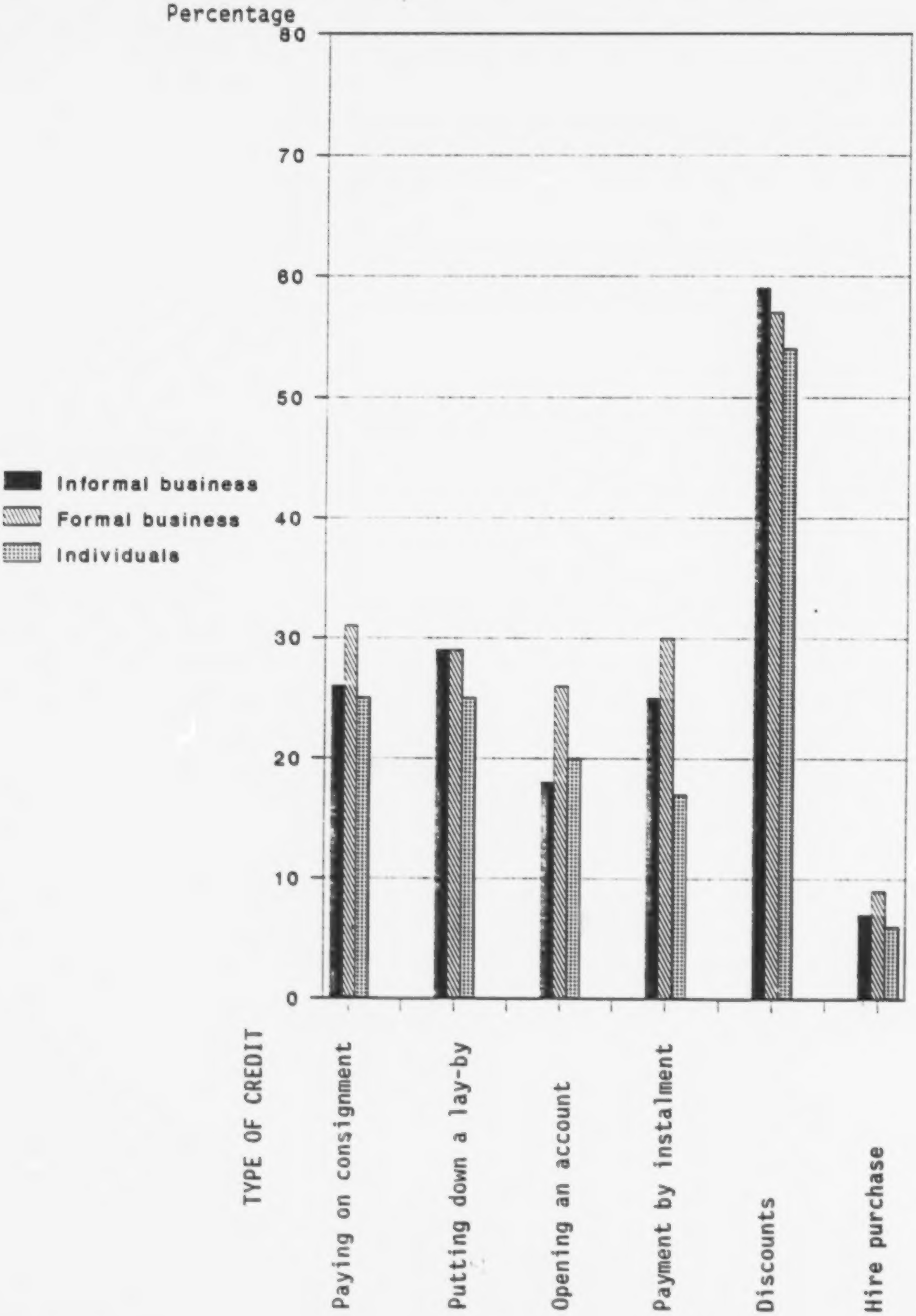
(a) Keeping informal business onwers informed

Type of information		N	%
New services	Yes	51	68,9
	No	23	31,1
TOTAL		74	100
New products	Yes	51	68,0
	No	24	32,0
TOTAL		75	100
Special promotions	Yes	50	66,7
	No	25	33,3
TOTAL		75	100
Sales (e.g. winter sales)	Yes	43	57,3
	No	32	42,7
TOTAL		75	100

(b) Giving advice to informal business owners

Type of advice		N	%
(a) Types of products to buy	Yes	60	80,0
	No	15	20,0
TOTAL		75	100
(b) Quantities to buy	Yes	41	54,7
	No	34	45,3
TOTAL		75	100
(c) Where to get products or materials the business does not stock	Yes	56	75,7
	No	18	24,3
TOTAL		74	100
(d) Methods of payment available to informal businesses	Yes	41	54,7
	No	34	45,3
TOTAL		75	100
(e) Conditions of contracts	Yes	56	75,6
	No	18	24,3
TOTAL		74	100

FIGURE 6.1
TYPE OF PAYMENT FACILITIES OFFERED BY SUPPLIERS



CHAPTER 7

FINANCIERS AND THEIR VIEWS ON INFORMAL BUSINESSES

7.1 INTRODUCTION

Access to finance influences not only the range and type of goods and services that informal business owners can offer, but also the quality of the materials, tools and equipment that they use in the business and the quantities of stock that can be kept.

In spite of the limitations that lack of access to finance may impose on the business, in Chapter 3 we noted that relatively few respondents had borrowed money from anyone for their businesses. Among other factors, one reason why so many informal businesses remain survival ones, may be found in their lack of access to finance.

In this chapter two approaches that were used to obtain information on possible sources of finance for informal businesses will be discussed. Both a simulation situation and interview schedules were used.

7.2 AIMS OF THE STUDY SPECIFICALLY APPLIED TO FINANCIERS

In view of the two different approaches used to obtain information for this chapter, aims related to each approach will be stated separately.

7.2.1 The simulation situation

The aims of the simulation were

- to describe occurrences that were observed when fieldworkers attempted to obtain loans from commercial banks.

- to identify training needs on the basis of these observations.

7.2.2 The interview schedule

The aims of this part of the study were

- to identify a group of financiers, namely those respondents representing four different possible alternative sources of finance for informal businesses.

- to determine the types of operations that they run.
- to explore the ways in which these financiers perceive the informal sector.
- to determine the loan application methods that they use.
- to outline the criteria taken into account by these financiers when granting a loan.
- to examine the conditions surrounding the repayment of loans.
- to use this information to identify further training needs to encourage the development of the informal sector.

7.3 SIMULATION SITUATION : ENQUIRIES AT A COMMERCIAL BANK

As an exploratory technique, simulation situations can give unique insights into interactions between people. Although an organisation such as a bank may have a policy of equal treatment of all customers, for example, the way in which this policy is carried out when staff interact with customers, needs to be observed. One way of doing so is to simulate a situation that is likely to be a frequent occurrence in an organisation and to observe the interactions that take place.

Other researchers have successfully used simulation techniques when studying the informal sector. For example, De Soto (1989) used this technique to illustrate the obstacles that are created when informal business owners try to meet the legal requirements to become formal in Lima in Peru. His research team set up a small garment factory and tried to register it without using lawyers to do so. The number of days that were wasted (289 days), the costs involved and the need to offer bribes on two occasions, as there was no other way to proceed, gave unique insights into the bureaucratic structures hampering the development of the informal sector in Peru.

7.3.1 Enquiries regarding obtaining a loan at a bank

In this study, we also tried out a simulation situation. Two fieldworkers, one white and one black, went into the branches of seven commercial banks in the central business district of Pretoria. They were told to make enquiries regarding obtaining a loan to start a business. They approached the reception desk and tried to make arrangements to see someone who could give them advice.

The white fieldworker said she wanted a loan of approximately R10 000 to buy an imported mat to enable her to start a business where she would give judo lessons to both children and adults. The black fieldworker said he wanted a loan of R4 000 to obtain shelving and goods to start a spaza shop at his residence. (Spaza shops are common features in black townships at the present time, where the occupier of a residence converts one room or a garage into a small shop selling groceries and basic foodstuffs.) The white fieldworker went on her own to three banks; the black fieldworker also went

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alone to three banks, while on one occasion they went together to make enquiries about the loan for the spaza shop.

7.3.2 Observations that were made at the banks

Two main observations were made regarding obtaining a loan to start an informal business:

- The white and the black fieldworkers were treated differently when they approached the reception desks.
- It would be very difficult for any informal business owner to obtain a loan from a bank, particularly if he or she does not have any employment or a fixed residential address.

As far as the treatment meted out to the white fieldworker compared to that meted out to the black one is concerned, it was relatively easy for the white fieldworker to gain access to an interview with a bank official, whether or not she had an account at the bank, but it was very difficult for the black fieldworker to do so. When she arrived at the reception desk and mentioned the reason for the visit, an appointment was set up for her to see an appropriate person in the bank. On the other hand the black fieldworker was treated differently at all banks, except one. Before any appointment was granted to him, he had to produce the following documents:

- identification,
- a salary slip and
- proof that an account was held at the bank (in one case this account was to have been held for at least 12 months prior to the request).

In addition, one receptionist asked for a life insurance policy or proof that someone could sign as guarantor for the loan before an interview could be granted. This treatment was given to the black fieldworker, even when accompanied by the white one, when they mentioned that the loan was for him and not for her. In one bank, however, he was given the same treatment as the white fieldworker. He was given an appointment to speak to a banking official.

The white fieldworker was informed at the first bank by the bank official with whom an appointment had been made that there was a training programme available for people starting a small business and that business advice officers would call on her personally to help with problems if a loan was granted. She was given a form to complete and her application would then be considered by the bank. During the discussion, the interviewer suggested that the fieldworker should apply for a business licence, since such a licence was a requirement before a loan could be granted. Unless registration papers are produced, the loan would not even be considered. Once the licence had been obtained and the loan application form was received, her request would be processed very quickly. He did however add that having a fixed address was a precondition to obtaining a loan.

At the second bank, the white fieldworker was given an appointment with the branch manager. He granted her an interview lasting three quarters of an hour during which he asked her for specific details regarding starting the business, the extent to which the need for judo instruction had been explored and the competition that she faced in the area where she wished to establish this business. He also asked for information on the premises that would be used and whether the business would be run full-time or part-time. He informed her that there were no specific criteria that were used to evaluate the risk of granting the loan. Each application was considered on its own merits. The viability of the business, the past financial record of the owner, his or her managerial abilities, and the security available to guarantee repayment would all be considered. A definite requirement would be a business plan and a cash flow chart. A fixed address was also important. The manager recommended that the fieldworker apply for a personal rather than a business loan and that she start the business in a part-time capacity, rather than giving up her work and embarking on it full-time. She therefore obtained business advice and possible access to a loan if she wanted it.

At the third bank that the white fieldworker went to, the banking official gave her two forms to complete, after discussing her ideas with her. One form was for a business loan, the other was an application for instalment credit. The official informed her that a fixed address was a definite requirement for a loan and so was actually having a job. An unemployed person wishing to start a business would definitely not be granted a loan. The business would have to be registered and the bank would require proof that registration of the business had actually been applied for before a loan could be granted.

At the bank which the black and white fieldworker visited together, the receptionist insisted that all the relevant documents be brought to her and only then would the fieldworkers be given an appointment to see a manager or a banking official. Other people were waiting in the queue, so attempts to secure an interview at this bank were abandoned.

At the first bank that the black fieldworker visited on his own, the receptionist told him that he would need to prove that he had a cheque account with the bank and that he had at least R200 credit in it. Any loan that would be granted would take the form of an overdraft on the cheque account. He was also asked to produce all the other documents previously mentioned. Someone to sign as guarantor was also needed. He was told that his employer would be contacted to ensure that he was of good standing in the organisation where he worked. He wasn't actually refused access to the manager or a banking official, but he was strongly advised to first obtain all the relevant documents. The treatment he received was, however, polite.

At the next bank, the treatment he received was unfortunately not at all polite. He was informed by the receptionist that they do not give loans! Then he was refused permission to see anyone.

The final bank that the black fieldworker visited was the one at which he was actually granted an interview. Here he was taken to a private office where he discussed the need to start a spaza shop with a banking official. She informed him that the bank would take the following criteria into account when deciding whether or not to grant the loan:

- Whether the residence in which he lived was actually owned by him.
- If so, whether he already had a loan from the bank to repay the bond on the house.
- Any other debts incurred by him.
- His marital status and whether or not his wife had a steady job.
- He was also asked to transfer his accounts from his existing bank to this one. This was not essential but it would make it easier for him to obtain the loan.
- Both he and his wife would be required to complete and to sign the necessary forms.
- The loan would have to be paid off within two years.

The friendly and helpful approach was emphasised by the fieldworker.

7.3.3 Training implications

This simulation technique is exploratory in nature, therefore generalisations cannot be drawn from these occurrences. Nevertheless it does indicate that, at least in some banks, banking officials need training regarding dealing with members of different population groups.

It also seems as if the policies of commercial banks need to be re-examined in relation to granting loans to informal business owners. Education and training directed at bankers could emphasise the need to evolve different criteria for evaluating the risks inherent in giving loans to informal business owners compared to the risks inherent in giving loans to other business owners. To involve all bankers in this type of exercise, it is suggested that the Institute of Bankers be approached to include financing the informal sector as a subject to be studied by the students. The banking examinations could then include questions on this topic. Alternative ways of financing this sector used in other countries could also be studied by the students.

Certain models, for example the one of the Grameen bank in Bangladesh (Timberg 1989), could be built on in this country to enable bankers to find new ways of financing the informal sector. The Grameen bank grants loans to customers who form part of a group of borrowers. This group takes co-responsibility for ensuring that loans are repaid. The bank and its functioning will be discussed in greater detail in another section of this chapter.

As far as the informal business owners are concerned, they can be given training regarding the requirements they would have to meet if they wished to gain a loan from a commercial bank. This type of training would be particularly applicable to the informal business owner who wishes to expand the business and become formal. It could hardly apply to a survival business run by an unemployed person living in a *"squatter"* area.

7.4 DESCRIPTION OF THE FINANCIERS WHO WERE INTERVIEWED USING THE INTERVIEW SCHEDULE

In addition to this simulation situation, interviews were also held with four different groups of people representing different sources from which money could possibly be obtained for financing an informal business. These were

- branch managers of commercial banks.
- managers of development agencies including those that are run or funded by the government and those that are privately run and funded (NGO's).
- administrators of stokvels and other savings clubs. A stokvel is *"...a type of credit union in which people enter into an agreement to contribute a fixed amount of money into a common pool. This money or portions of it may be drawn by members, either in rotation or in times of need."* (Lukhele 1990:1). The amount of money in a stokvel may be augmented in a variety of ways, a popular method being the holding of parties and charging an entrance fee as well as charging for food and drink that is served.
- informal money lenders (mashonisas).

Interviews were conducted in all 16 geographical districts in which the study took place (Table 7.1). Financiers were found in central business districts (43 %), in suburbs and residential areas (49 %) as well as in industrial areas (9 %). Altogether 94 interviews were held with branch managers of commercial banks, 26 were held with managers of development agencies, 26 with administrators of stokvels or other savings clubs and 25 with informal money lenders (Table 7.2a).

Regarding the actual population group of the majority of the clients at these financial outlets (Table 7.2b), the majority of bank managers said that their customers were either white (43 %) or else they came from all population groups (28 %). At development agencies, clients were either black (58 %) or else they were drawn from all population groups (23 %). Nearly all the supporters of stokvels (92 %) were black, while the informal money lenders lent money mostly to blacks (76 %).

The differences in approach to lending money in these organisations is evident in the way in which they advertised or attracted customers (Table 7.3). Most bank managers (76 %) said that their main channel of advertising was through the mass media, whilst almost half the managers in development agencies (42 %) said that they relied on advertising by word of mouth, although a substantial proportion (35 %) said that they used the mass media. Stokvel administrators relied on their members to inform others to increase membership (44 %) or else they relied on being part of the community (20 %) to do so. Informal money lenders (62 %) also relied on their clients to tell others about their services or else they relied on members of the community (19 %) to do so. From these findings it seems as if those running informal money lending businesses or indigenous schemes of lending money such as stokvels, attract clients through personal contacts while formal organisations are more likely to rely on impersonal methods.

The extent to which small business owners generally could obtain loans from these organisations was determined by asking the respondents to indicate the proportion of their clients who were actual or potential small business owners of formal businesses (Table 7.4a and b). By a potential small business owner is meant someone who is considering starting a small business and is making enquiries to do so. A large group of respondents in all the different types of lending organisations indicated that they did not know how many of their clients are actual or potential owners of small formal businesses. Perhaps in the banks, the option of taking out a personal loan or an overdraft was used to start a business, making it difficult to estimate this proportion, while in stokvel clubs and among informal money lenders, the reason why the money is borrowed is not always investigated. A large group of respondents (52 %) also indicated that they did not know whether or not their clients were informal business owners (Table 7.4c), probably for the same reasons as those mentioned above.

As far as the actual size of the loan that is available to small business owners is concerned (Table 7.5), the findings of the study indicate that the bank managers were very unlikely to have a stipulated minimum or maximum amount of money that they are prepared to lend to customers. Each application is considered on its merits. The stokvel administrators, however, were more likely than the other respondents to say that they have a specified minimum or maximum amount which could be given as a loan. The rotation method of allocating funds to members of the stokvel in some cases, could have influenced this finding. It is interesting however, to note that development agencies (58 %) were likely to have a maximum amount of money they were prepared to loan. Informal money lenders, on the other hand, were unlikely to have either a stipulated minimum or maximum amount of money that they were prepared to lend.

Among those respondents who said that they always or sometimes specify a minimum amount for a small business loan, more than half (59 %) indicated that this amount was R1 000 or less, while those who specified a maximum were also likely to stipulate a relatively small amount, since 59 % said they were prepared to lend R2 000 or less as a maximum amount.

Therefore it seems as if relatively small amounts of money are available as a loan to small business owners from development agencies, stokvel and informal money lenders. However, the bank managers are likely to judge each application on its merits.

From a training point of view, informal business owners need to be made aware that there are other possible sources of finance, in addition to banks from which relatively small amounts of money could be borrowed. The ways in which a stokvel can be formed can be included as a training module to encourage further development of indigenous solutions to obtaining finance. Training in the administration of a stokvel can also be included as a module for training the informal sector.

7.5 PERCEPTIONS OF THE INFORMAL SECTOR

In order to determine the ways in which the financiers participating in this study perceived the informal sector, they were asked to indicate their understanding of the term *"the informal sector"*. Then they were asked to rate informal business owners on a five point scale in terms of ten different sets of adjectives. For example, they were asked to rate informal business owners on a five point scale in terms of how advantaged they thought they were, where 1 = very disadvantaged, 2 = disadvantaged, 3 = neither advantaged nor disadvantaged, 4 = advantaged and 5 = very advantaged. This type of rating scale is similar to the one that was used to ask the informal business owners to rate their customers (see Chapter 3). The ten sets of adjectives used were the following:

disadvantaged - advantaged
unskilled - skilled
poor - rich
illiterate - literate
young - old
lacking ambition - ambitious
conforming - unconventional
unreliable - reliable
static - innovative
incompetent - competent

A final way to examine their perceptions of the informal sector was to ask about problems experienced by this sector. After the term *"the informal sector"* was described to them according to the way in which it is used in this study (see Chapter 1) the financiers were asked to discuss any problems that informal business owners may experience that differ from those experienced by formal business owners.

Each of these ways of examining the financiers' perceptions of the informal sector are discussed below.

7.5.1 Understanding of the term "the informal sector"

Regarding the financiers' understanding of the term *"the informal sector"* (Table 7.6), the lack of official recognition of this sector (33 %) and smallness of scale of businesses within it (33 %) were the most frequently mentioned characteristics. The concern with the lack of official recognition was also expressed by the owners of formal small businesses (Chapter 5), but the emphasis on smallness of scale was unique to financiers. This is understandable if one realises that financiers look at the business from a point of view of granting loans to the owner. The scale of operation influences its profitability and hence the owners' ability to repay loans.

7.5.2 Ratings of the informal sector

The ways in which the adjectives describing informal business owners were rated (Table 7.7a) indicates that overall, informal businesses were not likely to be viewed in a negative light by financiers. The respondents were likely to view informal business owners as being ambitious ($\overline{X}$ = 3,9), innovative ($\overline{X}$ = 3,5) and competent ($\overline{X}$ = 3,5). Managers of development agencies were however more likely than the respondents in the other groups to perceive informal business owners as being disadvantaged, unskilled and poor.

To further explore the relationships between these ratings, indicative of the financiers' perceptions of informal business owners and other variables, a factor analysis to determine which of these adjectives pairs clustered together, and two regression analyses were completed.

The factor analysis (Table 7.7b) indicated that these variables grouped together to form two factors, namely the extent to which resources such as skills and education are available to informal business owners and their motivation or desire to succeed. Two pairs of adjectives, namely young-old and conforming-unconventional did not load significantly on either of the two factors. They were therefore excluded from further data analysis.

The two regression analyses, each one using a different factor as a dependent variable, were run. The independent variables were descriptions of the financiers' businesses and methods of granting loans

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(Table 7.8). These analyses showed that different variables influenced these two types of perceptions of informal business owners. Regarding the variables influencing perceptions of the extent of resources available to informal business owners, differences between the types of financiers were found. Managers of development agencies were less likely to think that informal business owners had resources such as literacy and business skills available to them, while informal money lenders were more likely to think that informal business owners had these resources. The type of credit facilities available at the organisation also influenced the extent to which the respondent thought that informal business owners had resources available to them. Respondents whose organisations did not offer revolving credit (reinstating the amount of the loan after repayment) were less likely to view informal business owners as having these resources, while those in organisations that sometimes gave revolving credit were more likely to do so.

As far as perceiving the informal sector business owner as being motivated to want to succeed is concerned, a number of significant relationships were found between this variable and the conditions of repayment and types of loans that organisations granted to their customers.

The more the respondent emphasised education as an important criterion to take into account when considering a loan application, the less likely he or she was to think that informal business owners are motivated to succeed. Respondents whose clients were mainly Indian were less likely to see informal business owners as being motivated to succeed, probably because small business owners in the formal sector, rather than informal ones, can be characterised as being motivated to succeed in the Indian community. The less inclined a respondent was to give informal business owners a loan, the more likely he or she was to see them as being highly motivated to succeed. The implication here is that informal business owners can help themselves; they do not need the help of financiers.

Those who did not offer revolving credit were less likely to view informal business owners as being highly motivated, while if the conditions of repayment could be re-negotiated then respondents in those organisations were more likely to view informal business owners as being motivated to succeed. In other words, a flexible rather than a bureaucratic approach to lending money was related to seeing informal business owners as being highly motivated.

In certain geographical districts, informal business owners were more likely to be viewed as highly motivated than in others, probably reflecting the more conservative or more progressive approach of inhabitants in the district.

7.5.3 Training implications

Overall, the respondents were inclined to view the informal sector in a fairly positive light. This relatively positive approach can be used in education and training programmes to encourage financiers to support the informal sector. Ways in which to target education to financial institutions to make the people within them aware of the potential of the informal sector to grow and develop, need to be found. The necessity of having a training policy and a training strategy for the development of this sector is becoming increasingly obvious.

7.5.4 The financiers' perceptions of problems that informal business owners have

When comparing the perceptions of financiers regarding the problems faced by informal business owners and those faced by formal ones (Table 7.9), significant similarities and differences were noted. Almost a quarter of the responses given (23 %) indicated that both sectors had similar problems. When differences were mentioned, the riskier nature of the informal venture (26 %), the disadvantaged backgrounds of these business owners (15 %), the lack of access to adequate supplies and equipment (10 %), the difficulties experienced in obtaining suitable premises (8 %) and having to deal with discrimination in the community against informal businesses (7 %), were most frequently discussed.

These problems have similar training implications to the ones which have already been discussed in previous chapters. However, the fact that such a relatively large proportion of respondents could not distinguish between problems of informal and those of formal business owners indicates that, in the opinion of at least some financiers, informal businesses are capable of becoming formal. The need for training to enable this change of status to take place is again evident.

The extent to which the risk inherent in running an informal business was emphasised by financiers is however a new dimension. The risk of the business and risk evaluation are therefore important training needs for informal business owners, identified in this part of the study. If the informal business owner wishes to obtain a loan from a formal institution, he or she will need to be able to calculate how risky the business venture is and ways of minimising this risk.

7.6 APPLYING FOR A LOAN

When applying for a loan, informal business owners may be required to follow certain procedures such as completing an application form and being interviewed. These procedures are important because they can be included as part of a training module in courses concerned with applying for a loan.

The financiers were therefore asked to indicate whether or not an applicant is required to fill in a form and whether or not each prospective client who requires a loan is interviewed (Table 7.10). The responses indicate that development agencies (81 %) are highly likely to require applicants to complete forms when applying for a loan. In banks, the requirement to complete a form was also prevalent (63 %), but less prevalent than in development agencies. Forms in banks are not always necessary, particularly if existing overdraft facilities are used to finance a business or if personal loans are granted. Stokvel administrators and informal money lenders were unlikely to require people to complete forms to obtain a loan.

This requirement by formal institutions that the applicant completes a form may prevent illiterate informal business owners from having access to loans. However, most respondents who said that forms were necessary indicated that help was available at their organisation to enable people to complete forms. The type of help included

- explaining the contents of the form.
- advising on contractual obligations.
- advising on viability of the business and the risks involved.
- language translation or writing assistance.
- help in reading financial statements.
- checking the form on completion.

If the reader recalls the experiences of the black fieldworker who tried to obtain a loan, the extent to which this policy of offering help is actually implemented, can be questioned. Staff at banks may need training to sensitise them to the problems of literacy among some clients. Tactful and efficient help can then be offered to those who require a loan but who are unable to actually complete the necessary application forms.

As far as interviewing prospective clients requiring a loan is concerned, the vast majority (81 %) of respondents said that everyone was interviewed. Again, from our black fieldworkers' experience, it is obvious that this policy of interviewing everybody is not always carried out in banks.

The training implication here for informal business owners is that teaching them to complete forms is an area requiring attention. Such tuition may make a difference in enabling the business owner to successfully apply for a loan. Trainers themselves may also be needed to help people to complete forms. The way in which the form is completed gives the financier information regarding criteria to be taken into account when considering whether or not to grant the loan. Training for informal business owners in how to handle an interview situation is also apparent. The way in which a person presents him or herself and argues the case in an interview can have a decisive influence on whether or not a loan is granted.

7.7 CRITERIA TAKEN INTO ACCOUNT WHEN GRANTING A LOAN

The emphasis financiers put on the risks involved when lending money were again evident when the criteria which are taken into account when deciding whether or not to grant a loan, were examined. The respondents were given a series of biographical variables to rate on a five point scale in terms of the importance attached to these variables when deciding whether or not to grant a loan. This scale ranged from 1 = not at all important to 5 = very important. Biographical variables included age, sex, population group, fixed residential address, education and training and marital status (Table 7.11a).

Respondents were also given a series of business details that they may require from a client. They were also asked to rate these details on a five point scale in terms of their importance to the financier in deciding whether or not to grant a loan. Business information to be rated included previous experience in business, having explored the need for the product or service, and having identified potential customers (Table 7.11b).

In addition, the importance of various types of guarantees that were available to the loan applicant to actually secure the loan were also rated on a five point scale. These included having good credit references, having an insurance policy, having a credit balance in an account, proof of steady income and fixed investments (Table. 7.11c).

The findings (Table 7.11a) show that, in general, biographical variables were not considered as being very important when deciding on whether or not to grant a loan. The only item that was highly rated was having a fixed address. For bankers, however, previous work experience ($\overline{X}$ = 3,7), literacy ($\overline{X}$ = 3,5) and numeracy ($\overline{X}$ = 3,4) were considered as being rather important.

As far as business details are concerned (Table 7.11b), in general these were rated as being more important than biographical details. But they were of particular significance to banks. Respondents in both banks and development agencies stressed the importance of the desire to succeed in business ($\overline{X}$ = 4,3 and 4,0 respectively), of having definite goals for the business ($\overline{X}$ = 4,2 and 3,8 respectively) and of having explored the need for the product or service ($\overline{X}$ = 4,3 and 3,5) as important criteria. In addition, the bankers rated having identified potential customers ($\overline{X}$ = 4,0), the location of the business ($\overline{X}$ = 4,0) and having managerial skills ($\overline{X}$ = 3,7) as important factors to be taken into account when considering a loan application. None of these business details were rated highly among either stokvel administrators or informal money lenders.

As far as guarantees of repayment are concerned (Table 7.11c) the results showed that bankers are far more concerned about minimising the risks involved in granting a loan than the other financiers were. For bankers it was very important for a loan applicant to have good credit references ($\bar{X} = 4,6$). This criterion was also rather important for managers in development agencies ($\bar{X} = 3,8$), but it was less important for stokvel administrators ($\bar{X} = 3,3$) and for informal money lenders ($\bar{X} = 2,9$). For bankers, owning fixed property ($\bar{X} = 3,9$), having insurance policies ($\bar{X} = 3,6$), having proof of a steady source of income ($\bar{X} = 3,6$) and having other sources of income such as investments ($\bar{X} = 3,5$) were also important considerations. These considerations were however less important to other respondents.

These findings confirm the accuracy of the observations made in the simulation situation. Bankers would find it difficult to grant loans to informal business owners because, by virtue of being informal, these owners cannot fulfil the criteria to obtain a loan. It also seems as if informal business owners may experience some difficulties in obtaining loans from development agencies, but this would be an easier option than obtaining a loan from a bank.

When asked directly how likely they would be to grant a loan to informal business owners (Table 7.11d), it was not surprising to find that bankers were less likely to see themselves as granting this loan ($\bar{X} = 2,8$) than managers of development agencies ($\bar{X} = 3,7$) or informal money lenders ($\bar{X} = 3,9$). It is noteworthy, however, that stokvels administrators were also less likely to say that they would give loans to informal business owners ($\bar{X} = 2,9$). However, the main decision made by a stokvel administrator is whether or not to admit someone as a member of the club, rather than making decisions on how the money which is given to the owner or lent to him, will be spent. The extent to which a person can make the necessary monthly contributions is the most important consideration for stokvel administrators.

7.7.1 Variables influencing the extent to which a loan could be granted to informal business owners

A regression analysis was done in order to determine which variables, in addition to type of financier, influenced the likelihood of the respondent granting a loan to informal businesses (Table 7.12). The findings indicate that perceived characteristics of informal business owners as well as population group of the majority of clients were important determinants.

If the informal business owner was seen as having inner resources and strengths, then the respondent was more likely to grant him or her a loan. If the business owner was viewed as being highly motivated and ambitious, then the respondent was less likely to want to grant him or her a loan. Probably as discussed earlier, the financier in this case was likely to feel that this type of person could help him or herself and therefore did not need financial help. As already noted, but as is again evident, development agencies and informal money lenders were more likely to give loans to informal business owners than stokvels or banks.

Those organisations that had black people as their main clients were more likely to give informal business owners loans, while those who had coloured people as their main clients were less likely to do so. In the two districts in the Orange Free State, financiers were less likely to give loans to informal business owners, whereas in Newcastle and Nelspruit, two towns which are close to black rural areas, financiers were more likely to do so.

7.7.2 Variables influencing criteria taken into account when granting a loan

In addition to determining which variables influence whether or not a financier will grant a loan to informal business owners, the variables influencing which actual criteria were taken into account when deciding whether or not to grant a loan, were also explored. To do this a factor analysis was undertaken using all the items that were rated by financiers as criteria for granting a loan. The factor analysis indicated which criteria could be grouped together to form clusters of similar responses. The factors that were identified in this manner were then used in a series of regression analyses.

The factor analysis (Table 7.13) indicated that the variables clustered together to form four distinct groups of criteria to be taken into account when deciding whether or not to grant a loan. These factors were

- flair for business,
- financial stability,
- biographical characteristics and
- level of education.

When each of these factors was used as a dependent variable in a series of regression analyses (Table 7.14), it was obvious that the decision of whether or not to grant a loan is influenced by a variety of interdependent considerations. Each regression analysis is discussed separately below.

(a) Flair for business

Regarding the first dependent variable, namely flair for business, it seems as if conditions of repayment of the loan were the most important ones influencing the extent to which financiers thought that flair for business was an important consideration to be taken into account when granting a loan.

- As far as type of financier is concerned, branch managers in the banks were more likely than other respondents to take flair for business into account when granting a loan.
- The organisations that had forms to complete were more likely to emphasise business flair as a criterion to be taken into account when granting a loan than those that had no forms.
- If there was no fixed time for repayment of the loan, then less emphasis was placed on flair for business as a criterion for granting a loan.
- If a client was always or sometimes able to negotiate the conditions of repayment of the loan then the financier was likely to emphasise flair for business as a criterion to be taken into account when deciding whether or not to grant a loan.
- In a smaller town such as Harrismith, flair for business was likely to be emphasised as a criterion.

(b) Financial stability

Regarding the second dependent variable namely financial stability, a number of the independent variables including the type of financial organisation, the time period over which the loan could be repaid, the method of repayment and, to a lesser extent, geographical district all had an influence.

- Banks were highly likely to emphasise financial stability as a criterion to consider when granting a loan.
- Those organisations having a fixed time period for repayment of the loan were more likely to emphasise financial stability as a criterion than those who did not have a fixed time period.
- Those organisations that did not require repayments of a fixed amount to be made on a monthly basis were less likely to emphasise financial stability as a criterion for granting a loan than those organisations that sometimes had this requirement.
- Respondents in Harrismith were more likely to emphasise financial stability as a criterion for granting a loan.

(c) Biographical characteristics

As far as the dependent variable "biographical characteristics" is concerned, the type of financier, the availability of revolving credit and geographical district all had an influence on the extent to which it was taken into account when deciding whether or not to grant a loan.

- Those in banks and development agencies were less likely to, while informal money lenders were more likely to take biographical characteristics into account when deciding whether or not to grant a loan.
- Those organisations that did not offer revolving credit were less likely to take biographical characteristics into consideration when granting a loan than those that sometimes did.

- In certain geographical districts, biographical characteristics were considered as more important than in others. Again the reason for this is not clear.

(d) Level of education

Certain independent variables, namely population group of the majority of clients, the time period over which loans were required to be repaid, the availability of revolving credit and geographical district, influenced the extent to which the level of education of the client was taken into account when deciding whether or not to grant a loan.

- Those organisations where the majority of clients were white were more likely to emphasise level of education as a criterion on which to decide whether or not to grant a loan.
- The less likely an organisation was to grant a loan to informal businesses, the more likely the respondent was to emphasise educational qualifications as a criterion for granting a loan.
- If there was no fixed time period over which to repay a loan, then level of education was not regarded as an important criterion to take into account when granting a loan.
- If the organisation did not offer revolving credit then educational qualifications were less likely to be taken into account when considering granting a loan.
- In certain districts educational qualifications were considered as being more important than in others.

7.7.3 Training implications

These research findings indicate that informal business owners need training in understanding different loan repayment schemes if they wish to obtain a loan from banks and development agencies.

It is also apparent that obtaining a loan from a formal business organisation will be difficult for informal business owners. Therefore the need to train people in how to form a stokvel and how to administer it is again obvious.

Training could also be designed to make people aware of development agencies and their criteria for granting informal business owners a loan. It would be easier for an informal business owner to obtain a loan from a development agency than from a bank.

Modules on how to draw up a business plan and how to explore the market can also be included, depending on the sophistication of the organisation that will be approached for a loan. The need for an individualised training service is again apparent. Individual advice and counselling on financial matters may be more beneficial than classroom type training situations. The banks, development

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agencies and stokvels can be drawn into training to give this type of advice on an individual level. They can become part of a training partnership.

7.8 REPAYMENT OF THE LOAN

Once a loan is granted, the conditions surrounding the repayment of the loan may vary considerably depending on the type of financier and the actual conditions of the loan (Table 7.15). Relatively few respondents (29 %) had a fixed interest rate that they charged for all borrowers. Stokvels (75 %), informal money lenders (48 %) and development agencies (43 %) were however more likely to have fixed interest rates than the banks (12 %).

On the other hand, more respondents always (48 %) or sometimes (12 %) had a fixed time period during which loans had to be repaid than those who did not (40 %). The majority of respondents (59 %) indicated that their organisations required that repayments take place through fixed amounts on a monthly basis. More respondents (57 %) did not allow any time lapse to occur before repayments started than those who did. However, development agencies (54 %) were most likely to allow a period of two to three months to elapse before repayments started. Almost half (44 %) of the respondents said that they did not allow revolving credit (meaning that the maximum amount of the loan could be reinstated whenever necessary, after payments had been made). More than three quarters of the financiers (79 %) said that the conditions of payment could be negotiated.

As far as training is concerned, these findings again support the need to develop training modules around the issues of repayment of debt. Through a training intervention, guidance can be given to informal business owners to enable them to choose the type of repayment conditions that best suits their businesses. Sometimes it may be necessary to visit a few organisations before accepting a loan so that loans can be taken from those financiers who give repayment terms that are most suitable to a specific owner's circumstances.

7.8.1 Interest rates that are charged

As we have already noted, relatively few (29 %) respondents had a fixed interest rate that all clients were required to pay on the loan. The stokvel clubs were however most likely to have fixed interest rates.

Among those financiers who indicated that they did have definite fixed interest rates (N = 45) just over a quarter (26 %) charged 10 % interest per annum while another quarter (25 %) charged between 12 % and 21 %. Altogether 22 respondents indicated that their organisations were charging interest rates below the prime rates stipulated for banks. Just under a quarter (23 %)

charged interest rates of between 24 to 30 % per annum, while a quarter (25 %; mainly informal money lenders) were charging between 36 and 90 % interest per annum, an amount which is above the legally permitted limit in terms of the Usury Act.

This amount of interest may sound exhorbitant. However, recent research in other countries has shown that charging low interest rates can be more harmful than charging high interest rates. For example, Levitsky (1989:xxiv), in summarising the latest trends in micro-enterprise development stated that *"micro-enterprises did not need credit at a subsidised level lower than the prevailing commercial interest rate. What they needed was greater access to institutionalised finance."* The lower the interest rate, the less the penalties are for defaulting on repayments, the higher the interest rate the larger these penalties are, because more money has to be found to repay debts. According to Harper (1984), loans for which high interest rates are charged are repaid more rapidly than other loans. It needs to be borne in mind that even if high interest rates are charged by informal money lenders, informal business owners have access to finance which, under other circumstances, would not have been available to them. A high interest rate acts as an incentive to repay debts as quickly as possible.

Among those financiers who did not have a fixed interest rate which they charged for all borrowers (Table 7.16) the most important factors taken into account when deciding on the interest rate were the viability of the business (20 %), the security available to guarantee payment (19 %), the risk involved (17 % of responses), the creditworthiness of the business owner (13 %) and the actual amount of the loan (12 %). A large proportion of managers in development agencies (40 %) were likely to see the viability of the business as an important consideration in determining the amount of interest to be charged, while for those in stokvel clubs community ties of the applicant (44 %) as well as the viability of the business (33 %) were most frequently mentioned considerations to be taken into account when determining interest rates. Informal money lenders stressed the creditworthiness of the business owner (20 %), the amount of the loan (20 %) and the community ties of the business owner (20 %) as the most important factors taken into account when deciding on the amount of interest to be paid on a loan. Bankers however were likely to stress the security available to guarantee repayment (24 %), the assessment of the risks involved (20 %), the viability of the business (16 %) and the creditworthiness of the owner (13 %) as important considerations to be taken into account when deciding on interest rates to be charged.

It is therefore obvious that the different types of financiers take different factors into account when deciding on the amount of interest to charge on a loan.

From a training perspective, modules can be developed to enable the informal business owner to evaluate the amount of interest that he or she should pay against other factors such as the time being granted to repay the loan, his or her ability to repay it, the availability of a loan from other sources and the real contribution that the loan can make towards developing the business or running it more efficiently.

7.8.2 Steps taken to recover debt

If a loan is granted, the financier should have some means at his or her disposal to ensure that the loan is repaid. Respondents were therefore asked to indicate what steps they would take to recover their debt if a loan is not repaid (Table 7.17). The findings show that re-negotiations, discussions, verbal and written reminders were likely to be taken as a first step before other action is taken.

As a second step, banks and development agencies are likely to institute legal actions. However, those lenders who do not have access to the law are likely to resort to repossessions, claiming of securities and even physical violence.

It seems as if, in the opinion of the financiers, informal business owners do not experience problems regarding understanding the conditions of repayment of the loan or the terminology used in the transactions (Table 7.18). It seems as if, when they default on repayments, it is because they cannot afford to make the payment. Inability to repay, not lack of understanding of repayment principles, is the main problem.

Training should therefore focus on giving informal business owners skills to assess the viability of the business which in turn affects their ability to repay loans. When taking out a loan, training should focus on whether or not this is really necessary and the best methods of improving the business using this loan. Training should also emphasise the caution informal business owners need to take when borrowing from sources that are not officially recognised because there is no legal protection for either party in these transactions.

7.9 POSSIBLE TRAINING, EDUCATION AND DEVELOPMENT IMPLICATIONS

All these research findings regarding obtaining finance to allow informal businesses to survive, or else to develop and expand, have training implications. The extremely close relationship between training and development, as indicated in Chapter 2, is clearly apparent. The real difficulties that informal business owners may experience in obtaining loans cannot be overcome merely by giving these owners training in how to apply for a loan and in principles of repayment. Other development problems will have to be tackled.

7.9.1 Implications for development

From a development point of view, it is apparent that banks will have to be encouraged to change their policies regarding granting loans to informal business owners as part of a national strategy to develop the informal sector. *"Most banks find that it is more expensive to lend small amounts of money to several small borrowers than larger amounts to fewer borrowers"* (Harper 1984:49). The bankers have objections in granting small loans because the procedures take too long, security is difficult to verify, the risks are too high and the costs incurred to grant one small loan are the same as the costs incurred to grant one large loan (Harper 1984:53). However, the involvement of the banks in finding ways of granting loans to informal business owners may help towards solving problems of unemployment. *"When wage employment is not available, the only alternative is self employment"* (Levitsky 1989:xix).

Harper (1984) indicates that it is possible for banks to reduce the amount of time spent on approving a loan and to reduce the costs involved by

- simplifying procedures,
- concentrating on the character and the ability of the borrower rather than on guarantees of repayment, and
- decentralising the functioning of banks.

He further adds that *"...if some of the highly qualified analysts in expensive central offices are replaced with well-trained low level village or community bank managers, the bank may spend less and achieve better results"* (Harper 1984:54).

The suggestion was made by Harper that group pressure needs to be mobilised to ensure repayment of loans, rather than insisting on securities or guarantors. A different approach is needed by banks when granting loans to poor people, but these loans should be granted. Investing in poor people is good business (Levitsky 1989).

The Grameen bank of Bangladesh is an example of the way in which a bank can successfully cater for the poorest people in a society. This bank can demonstrate that 85 % of its clients are single parent, female, rural but landless peasants (Yunus 1989). Its functioning is based on establishing a close relationship between the banks and the borrowers. It has a highly decentralised structure of multilayered federations. When a new branch is established, an office is not set up and no buildings are built to house the branch. The first task is to understand and to document everything about the area which may come under the coverage of the proposed branch. A low key approach is taken. The branch manager walks around the area talking to as many people as possible, explaining the objectives, procedures and rules of the bank. Shelter for the manager is found in an abandoned house or at a school or hostel. In this way the confidence and trust of the people in the area is won.

The Grameen bank managers adopt a problem solving approach when talking to people. Their aim is to help them to identify and to solve problems of potential borrowers related to running micro-enterprises. An atmosphere is created which is very different from the typical hierarchical bureaucracy of a bank. There are no individual evaluations of credit-worthiness of borrowers. Instead, the borrowers are urged to organise themselves into groups. These groups accept co-responsibility for ensuring that debts incurred by members of the group are repaid. Members of the group cannot obtain further loans until debts are paid. Peer group pressure is thus brought to bear on individual members to pay their debts to the bank and group solutions are found to solve problems related to repayments of money borrowed from the bank.

The Grameen bank was originally linked to a major urban bank, namely the Bangladesh Central Bank. This major bank started it as an experimental project. It is now an independent bank, but it still maintains informal links with its founder.

In South Africa, both banks and development agencies can learn from the experiences of the Grameen bank. Some banks in this country do have small business development units, and many development agencies give loans to informal businesses, but a concerted approach to help the poor is needed. There are one or two development projects that do make use of group pressures to ensure repayment of loans, but this method of granting loans needs to be encouraged so that many more organisations actually try to put it into effect.

Training bodies can encourage experimental projects to be started by banks and development agencies, based on Grameen principles. The target groups could include both the rural and the urban poor. In urban areas where there is high unemployment and in *"squatter"* areas, the need for finance to start or to develop an informal business is clearly obvious. A Grameen type of organisation has the potential to be very successful in these areas. A decentralised, low key, consultative approach can be taken by banks to granting loans to informal businesses, while their existing structures can continue to function to provide finance for the sophisticated smaller and larger clients in the formal sector. Group ties in this country are strong, and the indigenous culture could be built on to enable groups taking co-responsibility for repayment of debts to develop. Such groups could exert pressure on their members to repay loans.

The way in which this capital is going to be used is however also an important consideration. Harper (1984) points out that in many instances capital is uneconomically used by informal business owners. For example, some Kenyan shopkeepers in Harper's study used the money obtained through a loan to accumulate an even larger stock of slow selling goods with no effect on their profits. Whatever capital is available should be deployed as effectively as possible. Perhaps banks and development agencies could help to ensure that loans are effectively used through developing relationships of mutual trust between themselves and their borrowers.

7.9.2 Training implications

In addition to tackling development problems, specific training implications for both informal business associations and for financiers were identified through the research findings in this chapter.

- Bank officials may need training in customer relations generally and in dealing with members of different population groups in particular.
- Courses in banking for banking officials should include modules on the financial needs of the informal sector.
- As the examining body for bankers, the Institute of Bankers should be approached to include questions on financing the informal sector in their examination papers.
- Education programmes regarding the viability of informal businesses and their potential to grow and develop should be targeted at financiers.
- As far as informal sector business owners are concerned, they need training in how to apply for a bank loan.
- This type of training will be more appropriate for the established informal business owner who wishes to become formal, rather than for the potential micro-entrepreneur or the person who has just started a business. The need for modular training courses is therefore clearly apparent.
- Trainees need to be made aware that there are other sources of finance in addition to banks. They need to be informed about development agencies in their area.
- Each organisation has its own criteria regarding granting a loan. Training could focus on some of these criteria and how to fulfil them in order to obtain a loan.
- A particularly important area of training for informal business owners is that of risk evaluation. They need to be able to estimate the risks involved in taking out a loan and how these risks could affect their ability to pay back the money that is owed.
- Specific training may be needed regarding filling out loan application forms.
- For illiterate people, training, so that they can become functionally literate in business terminology generally and in financial terminology in particular, may be an important consideration.
- Training may also need to be directed towards teaching informal business owners how to handle an interview situation in a bank or in a development agency to enable them to create a favourable impression so that a loan can be granted to them.
- Again apparent is the need for training courses for informal business owners to enable them to enter the formal sector if they choose to do so.

- Once a loan has been granted, informal business owners may need training regarding the repayment of the loan and different terms that are available.
- They may also need training regarding understanding the principles behind paying interest and selecting the organisation that offers the best interest rate for their particular circumstances, taking other factors such as time to repay the loan into account.
- In general they may need training regarding shopping around for the best loan arrangements to suit their specific business needs, including the best repayment conditions.
- Banks, development agencies and stokvels should be encouraged to play a training role in the development of informal businesses.
- Once a loan has been granted, informal business owners may need training regarding how to use this capital wisely. For example it should not be used to buy more slow moving goods.
- An important part of informal sector training is the facilitation of the development of co-operatives. A stokvel is essentially a co-operative method developed indigenously to make money available to poorer people. Specific training regarding how to form a stokvel could therefore also be introduced as an independent training module.
- Methods of running and managing a stokvel could also be introduced as a training module.
- The importance of individualised training, including counselling and giving advice is again apparent with regard to enabling informal business owners to obtain finance. Both group and individual methods should be used.
- In general, all courses for training informal business owners in obtaining loans should be presented as independent modules, allowing the trainee to select which courses best suit his or needs.

TABLE 7.1

GEOGRAPHICAL DISTRICT IN WHICH INTERVIEWS WITH FINANCIERS TOOK PLACE

		Number of interviews	
Geographical districts		N	%
Johannesburg	- White	7	4,2
	- Black established	10	6,0
	- Indian	2	1,2
Cape Town	- White	7	4,2
	- Black established	5	3,0
	- Coloured	6	3,6
Port Elizabeth	- White	11	6,5
	- Black established	2	1,2
	- Coloured	5	3,0
Durban	- White	7	4,2
	- Black established	11	6,5
	- Indian	6	3,6
Bloemfontein	- White	5	3,0
	- Black established	4	2,4
Newcastle	- White	4	2,4
	- Black established	5	3,0
	- Indian	2	1,2
Nelspruit	- White	7	4,2
	- Black established	3	1,8
George	- White	7	4,2
	- Black established	3	1,8
Witbank	- White	4	2,4
	- Black established	5	3,0
Pietersburg	- White	2	1,2
	- Black established	4	2,4
Queenstown	- White	4	2,4
	- Black established	3	1,8
Harrismith	- White	2	1,2
	- Black established	5	3,0
	- Black squatter	1	0,6
De Aar	- White	6	3,6
	- Black established	1	0,6
King William's Town	- White	1	0,6
	- Black Squatter	3	1,8
Upington	- White	3	1,8
	- Black established	4	2,4
Ladysmith	- Indian	1	0,6
TOTAL		168	100

TABLE 7.2

TYPE OF AREA WHERE FINANCIER WAS FOUND AND THE POPULATION GROUP OF THE MAJORITY OF CUSTOMERS ACCORDING TO TYPE OF FINANCIER

Description	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Type of area where financiers were found										
Central business districts	60	63,8	9	34,6	2	7,7	2	8,0	73	42,7
Suburbs and residential areas	27	28,7	15	57,7	21	80,8	20	80,0	83	48,5
Industrial areas	7	7,5	2	7,7	3	11,5	3	12,0	15	8,8
TOTAL	94	100	26	100	26	100	25	100	171	100
(b) Population group of the majority of customers										
Indian	11	11,7	1	3,9	-	-	-	-	12	7,0
Black	11	11,7	15	57,7	24	92,3	19	76,0	69	40,4
Coloured	6	6,4	1	3,9	2	7,7	2	8,0	11	6,4
White	40	42,6	3	11,5	-	-	-	-	43	25,2
All	26	27,7	6	23,1	-	-	4	16,0	36	21,2
TOTAL	94	100	26	100	26	100	25	100	171	100

TABLE 7.3

WAYS IN WHICH FINANCIERS ADVERTISE THEIR BUSINESS ACCORDING TO TYPE OF FINANCIER

Ways of advertising	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Through the mass media	71	76,3	9	34,6	-	-	-	-	80	47,1
Cards and pamphlets	-	-	3	11,5	6	24,0	3	11,5	12	7,1
Being part of the community	5	5,4	3	11,5	5	20,0	5	19,2	18	10,6
Clients tell other people	17	18,3	11	42,3	11	44,0	16	61,5	55	32,4
Do not know	-	-	-	-	3	12,0	2	7,7	5	2,9
TOTAL	93	100	26	100	25	100	26	100	170	100

TABLE 7.4

PERCENTAGE OF CUSTOMERS/MEMBERS WHO WERE FORMAL SMALL BUSINESS OWNERS, POTENTIAL FORMAL SMALL BUSINESS OWNERS OR INFORMAL BUSINESS OWNERS ACCORDING TO TYPE OF FINANCIER

Percentages	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Percentage - small business owners										
9% or less	15	15,9	-	-	1	3,9	-	-	16	9,4
10 - 20%	16	17,0	1	3,9	2	7,7	1	4,0	20	11,7
21 - 45%	13	13,8	4	15,4	1	3,9	2	8,0	20	11,7
46 - 60%	6	6,4	7	26,9	2	7,7	4	16,0	19	11,1
61% or more	4	4,3	8	30,8	7	26,9	1	4,0	20	11,7
Do not know	40	42,6	6	23,1	13	50,0	17	68,0	76	44,4
TOTAL	94	100	26	100	26	100	25	100	171	100
(b) Percentage - potential small business owners										
5% or less	16	17,0	1	3,9	-	-	-	-	17	9,9
6 - 12%	9	9,6	2	7,7	1	3,9	-	-	12	7,2
13 - 20%	7	7,5	-	-	3	11,5	3	12,0	13	7,6
21 - 45%	4	4,3	4	15,4	6	23,1	-	-	14	8,2
46% or more	4	4,3	8	30,8	1	3,9	2	8,0	15	8,8
Do not know	54	57,5	11	42,3	15	57,7	20	80,0	100	58,5
TOTAL	94	100	26	100	26	100	25	100	171	100
(c) Percentage - informal business owners										
9% or less	23	24,5	2	7,7	3	11,5	1	4,0	29	17,0
10 - 20%	12	12,8	3	11,5	1	3,9	3	12,0	19	11,1
21 - 45%	7	7,5	8	30,8	1	3,9	1	4,0	17	9,9
66% or more	5	5,3	6	23,1	4	15,4	2	8,0	17	9,9
Do not know	47	50,0	7	26,9	17	65,4	18	72,0	89	52,1
TOTAL	94	100	26	100	26	100	25	100	171	100

TABLE 7.5

WHETHER OR NOT FINANCIERS HAVE A MINIMUM/MAXIMUM AMOUNT TO LOAN TO SMALL BUSINESS OWNERS

Minimum or maximum loans	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Minimum loan for small business owners										
Yes	17	18,3	10	38,5	14	53,9	8	32,0	49	28,8
Sometimes	6	6,4	2	7,7	-	-	2	8,0	10	5,9
No	70	75,3	14	53,8	12	46,1	15	60,0	111	65,3
TOTAL	93	100	26	100	26	100	25	100	170	100
(b) Maximum loan for small business owners										
Yes	9	9,8	15	57,7	12	48,0	6	24,0	42	25,0
Sometimes	5	5,4	4	15,4	1	4,0	3	12,0	13	7,7
No	78	84,8	7	26,9	12	48,0	16	64,0	113	67,3
TOTAL	92	100	26	100	25	100	25	100	168	100

TABLE 7.6

FINANCIERS' UNDERSTANDING OF THE TERM "THE INFORMAL SECTOR"

Understanding of the term "Informal sector"	Type of financiers									
	Banks		Development agencies		Stokvels		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Businesses that are not officially recognised	19	22,6	7	31,8	13	54,2	10	47,6	49	32,5
Businesses run from informal premises (e.g. a pavement, a backyard)	18	21,4	5	22,7	3	12,5	3	14,3	29	19,2
Very small type of business	35	41,7	4	18,2	4	16,7	6	28,6	49	32,5
Survival business	6	7,1	3	13,6	3	12,5	1	4,8	13	8,6
Businesses where owner is disadvantaged	4	4,8	2	9,1	-	-	1	4,8	7	4,6
Business serving the community	2	2,4	1	4,5	1	4,2	-	-	4	2,6
TOTAL	84	100	22	100	24	100	21	100	151	100

TABLE 7.7

FINANCIERS' PERCEPTIONS OF INFORMAL BUSINESS OWNERS

Perceptions	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd
(a) Extent to which informal business owners are										
Disadvantaged - advantaged	3,1	1,1	2,4	1,0	3,5	1,0	3,6	1,3	3,1	1,2
Unskilled - skilled	3,0	1,1	2,4	0,9	2,7	1,0	3,0	1,2	2,9	1,1
Poor - rich	2,7	0,8	2,1	1,0	2,5	0,7	3,0	0,9	2,6	0,8
Illiterate - literate	3,4	1,0	3,0	1,1	3,3	0,7	3,2	0,9	3,3	1,0
Young - old	3,3	0,7	3,2	0,9	3,2	0,9	3,1	0,5	3,2	0,7
Lacking ambition - ambitious	4,0	1,0	3,7	1,1	3,7	1,0	3,8	1,3	3,9	1,0
Conforming - unconventional	3,2	1,0	3,1	1,2	3,2	0,8	2,6	1,1	3,1	1,0
Unreliable - reliable	3,4	0,9	3,4	1,2	3,0	1,0	3,8	1,0	3,4	1,0
Static - innovative	3,7	0,9	3,5	1,0	3,0	0,9	3,0	1,0	3,5	1,0
Incompetent - competent	3,6	0,8	3,5	1,2	3,2	0,9	3,4	1,2	3,5	0,9

$\bar{X}$ = mean; sd = standard deviation

(b) Factor analysis : ratings of informal businesses

	Factor 1 Resources	Factor 2 Motivation
Unskilled - skilled	0,64	
Poor - rich	0,64	
Disadvantaged - advantaged	0,51	
Illiterate - literate	0,30	
Static - innovative		0,70
Unreliable - reliable		0,63
Lacking ambition - ambitious		0,53
Incompetent - competent		0,32

TABLE 7.8

VARIABLES INFLUENCING FINANCIERS' PERCEPTIONS OF INFORMAL BUSINESS OWNERS

Variables		Extent of resources	Extent of motivation
Intercept		7,51***	9,13***
Education level of informal business owner as a loan criterion			-0,13*
Type of financier	Bank		
	Development agency	-1,04***	
	Stokvels club		
	Informal money lender	0,52**	
Population group of the majority of clients			
	Indian		-0,85**
	Black		
	Coloured		
	White		0,89**
	All		
Likelihood of granting a loan to informal businesses			-0,23*
Offering revolving credit	Yes		0,61***
	Sometimes	0,50**	
	No	-0,43**	-0,57***
Negotiation of conditions of repayment			
	Yes		0,44*
	Sometimes		
	No		
Geographical region	Johannesburg		
	Cape Town		
	Port Elizabeth		
	Durban		1,06***
	Bloemfontein		
	Newcastle		
	Nelspruit		
	George		-0,83*
	Witbank		0,82*
	Pietersburg		
	Queenstown		
	Harrismith		
	De Aar		
	Upington		
	King William's Town		1,31***

***p< 0,01; **p< 0,05; *p< 0,10

TABLE 7.9

OPINIONS OF THE FINANCIERS OF THE PROBLEMS EXPERIENCED BY INFORMAL BUSINESS OWNERS THAT DIFFER FROM THOSE OF FORMAL BUSINESS OWNERS*

Unique problems of informal business owners	Type of financiers									
	Banks		Develop-ment agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Informal business owners and formal business owners have similar problems	36	21,2	7	13,0	17	47,2	9	22,0	69	22,9
Informal business owners have riskier businesses than formal businesses	48	28,2	16	29,6	4	11,1	11	26,8	79	26,2
Informal business owners have more disadvantages to overcome, e.g. lack of skills, lack of exposure to business	31	18,2	11	20,4	3	8,3	1	2,4	46	15,3
Informal business owners have problems related to financial management that formal businesses do not have	4	2,4	4	7,4	3	8,3	6	14,6	17	5,7
Informal business owners have less access to supplies, equipment and other resources, than formal businesses	16	9,4	6	11,1	5	13,9	4	9,8	31	10,3
Informal business owners have problems in obtaining premises, which formal business owners do not have	17	10,0	3	5,6	2	5,6	2	4,9	24	8,0
Informal businesses have less credibility than formal businesses	6	3,5	3	5,6	2	5,6	3	7,3	14	4,7
Informal business owners are more likely to be discriminated against than formal business owners	12	7,1	4	7,4	-	-	5	12,2	21	7,0
TOTAL	170	100	54	100	36	100	41	100	301	100

*Each respondent could list up to three problems.

TABLE 7.10

APPLYING FOR A LOAN

(a) Whether or not financiers have forms that informal business owners are required to fill out

Forms to be completed	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	59	62,8	21	80,8	9	34,6	4	16,7	93	54,7
No	35	37,2	5	19,2	17	65,4	20	83,3	77	45,3
TOTAL	94	100	26	100	26	100	24	100	170	100

(b) Whether or not financiers have interviews with all potential clients who require loans

Interviews with all	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Yes	76	80,9	24	92,3	19	73,1	20	80,0	139	81,3
No	18	19,1	2	7,7	7	26,9	5	20,0	32	18,7
TOTAL	94	100	26	100	26	100	25	100	171	100

TABLE 7.11

EXTENT TO WHICH BIOGRAPHICAL AND BUSINESS CRITERIA AND GUARANTEES OF REPAYMENT ARE TAKEN INTO ACCOUNT WHEN GRANTING A LOAN

Criteria	Type of financiers									
	Banks		Develop-ment agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd
(a) Biographical criteria										
Age	2,6	1,3	2,5	1,5	3,4	1,5	3,5	1,7	2,8	1,5
Sex	1,6	0,9	1,8	1,0	1,8	1,2	1,6	1,1	1,7	1,0
Population group	1,7	1,1	2,5	1,6	2,2	1,5	2,5	1,7	2,0	1,4
Literacy	3,5	1,3	2,6	1,3	2,4	1,4	2,8	1,7	3,1	1,5
Numeracy	3,4	1,4	3,0	1,4	2,3	1,5	2,6	1,8	3,0	1,5
High school education	2,6	1,2	2,0	1,2	2,3	1,4	1,7	1,2	2,3	1,3
Post-school academic education	2,2	1,2	1,7	0,8	1,8	1,3	1,6	1,4	2,0	1,2
Post-school training	2,5	1,3	2,3	1,2	2,0	1,4	1,8	1,5	2,3	1,3
Home language	1,6	0,9	1,6	1,0	1,9	1,4	2,2	1,6	1,7	1,2
Fixed residential address	4,4	1,0	4,0	1,4	4,5	1,1	4,4	1,3	4,4	1,1
Previous work experience	3,7	1,2	3,2	1,4	2,6	1,6	2,5	1,5	3,3	1,4
Marital status	2,2	1,4	1,7	1,0	1,9	1,5	2,2	1,6	2,1	1,4
Number of children (if any)	1,9	1,2	1,8	1,1	2,2	1,6	2,4	1,7	2,0	1,4
(b) Business criteria										
Desire to succeed in business	4,3	1,3	4,0	1,5	3,4	1,8	3,0	1,8	3,9	1,5
Previous experience in same type of business	3,7	1,4	3,2	1,3	2,6	1,5	2,4	1,7	3,2	1,5
Having definite goals for the business	4,2	1,3	3,8	1,4	3,2	1,6	2,9	1,6	3,8	1,5
Having explored the need for the product or service	4,3	1,2	3,5	1,6	2,6	1,6	2,2	1,5	3,6	1,6
Having identified potential customers	4,0	1,3	3,4	1,6	2,7	1,8	2,8	1,6	3,5	1,6
Knowledge of bookkeeping	3,4	1,4	2,8	1,4	2,7	1,7	1,7	1,1	3,0	1,5
Having managerial skills	3,7	1,3	3,2	1,5	2,4	1,4	1,8	1,3	3,1	1,5
Location of business premises	4,0	1,4	3,3	1,5	2,6	1,7	2,2	1,7	3,4	1,6
Previous experience in business	3,4	1,3	3,0	1,2	2,7	1,6	2,3	1,8	3,1	1,5

$\bar{X}$ = mean; sd = standard deviation

(continued)

TABLE 7.11 (continued)

Criteria	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd	$\bar{X}$	sd
(c) Guarantees of repayment										
Having good credit references	4,6	0,9	3,8	1,4	3,3	1,8	2,9	1,8	4,0	1,5
Having insurance policies	3,6	1,4	3,3	1,4	3,0	1,7	2,8	1,9	3,3	1,5
Having someone to sign as security	3,2	1,3	3,0	1,5	2,9	1,5	3,1	1,8	3,1	1,4
Having a reference by a respected person in the community	2,9	1,3	2,6	1,5	2,3	1,5	2,3	1,8	2,7	1,4
Having a credit balance in an account(s)	3,1	1,4	2,9	1,3	2,6	1,5	2,4	1,6	2,9	1,4
Proof of having had a steady income in the past	3,6	1,3	2,6	1,4	2,7	1,5	2,8	1,7	3,2	1,5
Having other investments	3,5	1,3	2,8	1,3	2,6	1,6	2,5	1,8	3,1	1,6
Owning moveable property	2,5	1,4	2,4	1,7	2,2	1,7	2,2	1,7	2,4	1,3
Owning fixed property (e.g. a house)	3,9	1,2	2,9	1,4	3,0	1,5	3,0	1,6	3,5	1,6
(d) How likely financiers are to give a loan to informal business owners										
Not at all - very likely	2,8	1,1	3,7	1,3	2,9	1,2	3,9	1,0	3,1	1,2

$\bar{X}$ = mean; sd = standard deviation

TABLE 7.12

VARIABLES INFLUENCING THE LIKELIHOOD THAT FINANCIERS WILL GRANT A LOAN TO INFORMAL BUSINESS OWNERS

Variables		Parameter estimate
Intercept		2,99***
Perceptions of informal business owners		
(a) Inner resources of informal business owner		0,21***
(b) Motivation of formal business owner		-0,15**
Type of financier	Bank	
	Development agency	0,56***
	Stokvel club	-0,60***
	Informal money lender	0,34**
Population group of the majority of clients		
	Indians	
	Blacks	0,38*
	Coloureds	-0,58*
	Whites	
	All	
Geographical region	Johannesburg	
	Cape Town	
	Port Elizabeth	
	Durban	
	Bloemfontein	-0,74**
	Newcastle	0,71**
	Nelspruit	0,60*
	George	
	Witbank	
	Pietersburg	
	Queenstown	
	Harrismith	-0,72*
	De Aar	
	Upington	
	King William's Town	

***p< 0,01; **p< 0,05; *p< 0,10

TABLE 7.13

FACTOR ANALYSIS : CRITERIA TAKEN INTO ACCOUNT WHEN GRANTING A LOAN

Variables	Factor 1 Flair for business	Factor 2 Financial stability	Factor 3 Biographical characteristics	Factor 4 Level of education
Having explored the need for product	0,84			
Having definite goals for the business	0,83			
Having identified potential customers	0,80			
Desire to succeed in business	0,77			
Having managerial skills	0,74			
Location of business premises	0,70			
Knowledge of bookkeeping	0,63			
Previous experience in business	0,62			
Previous experience in same type of work	0,57			
Numeracy	0,42			
Having other investments		0,65		
Having credit in an account		0,65		
Having insurance policies		0,63		
Proof of steady income in the past		0,61		
Owning moveable property		0,60		
Owning fixed property		0,57		
Having good credit references		0,51		
Having someone sign as security		0,49		
Reference by respected person		0,38		
Previous work experience		0,48		
Having a fixed residential address		0,35		
Home language			0,67	
Population group			0,62	
Age			0,59	
Number of children			0,56	
Marital status			0,52	
Sex			0,48	
High school education				0,75
Post-school academic education				0,66
Post-school training				0,53
Literacy				0,47

$^{***}p< 0,01$; $^{**}p< 0,05$; $^{*}p< 0,10$

TABLE 7.14

VARIABLES INFLUENCING THE CRITERIA TAKEN INTO ACCOUNT WHEN CONSIDERING GRANTING A LOAN TO INFORMAL BUSINESS OWNERS

VARIABLES		Flair for business	Financial stability	Biographical characteristics	Level of education
Intercept		21,56**	18,09***	7,74***	6,87***
Type of financier	Bank	4,17***	1,34***	-0,94***	
	Development agency			-0,84*	
	Stokvel club				
	Informal money lender	-2,34**		1,00**	
Population group of the majority of clients					
	Indian				
	Black				
	Coloured				
	White				1,26***
	All				
Likelihood of granting a loan to informal businesses					-0,30*
Requiring informal business owners to complete forms		2,11***			
Fixed time period for loan repayment	Yes		1,18*		
	Sometimes	2,83**			0,77**
	No	-2,72**	-1,62**		-0,71**
Repayment in fixed amounts monthly					
	Yes				
	Sometimes		1,31*		
	No		-1,36*		
Revolving credit	Yes				
	Sometimes			1,47***	
	No			-1,04***	-0,69**
Negotiate conditons of repayment					
	Yes	1,59*			
	Sometimes	3,07**			
	No	-4,66***			
Geographical region	Johannesburg				
	Cape Town			1,48**	
	Port Elizabeth			-1,31**	
	Durban				
	Bloemfontein				
	Newcastle				1,17*
	Nelspruit				
	George			1,71**	
	Witbank				-1,28*
	Pietersburg				
	Queenstown				-0,35*
	Harrismith	5,03**	4,44**	2,26**	1,76**
	De Aar				
	Upington				1,55**
	King William's Town				-1,75**

***p< 0,01; **p< 0,05; *p< 0,10

TABLE 7.15

CONDITIONS OF REPAYMENT OF THE LOAN ACCORDING TO TYPE OF FINANCIER

Conditions of repayment		Type of financiers									
		Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
		N	%	N	%	N	%	N	%	N	%
(a) Fixed interest rate	Yes	11	11,8	9	42,9	15	75,0	10	47,6	45	29,0
	No	82	88,2	12	57,1	5	25,0	11	52,4	110	71,0
TOTAL		93	100	21	100	20	100	21	100	155	100
(b) Fixed time period for repayment	Yes	37	39,4	19	73,1	14	56,0	11	45,8	81	47,9
	Sometimes	17	18,1	1	3,9	2	8,0	-	-	20	11,8
	No	40	42,5	6	23,1	9	36,0	13	54,2	68	40,2
TOTAL		94	100	26	100	25	100	24	100	169	100
(c) Repaying fixed amounts on a monthly basis	Yes	48	51,6	19	73,1	15	57,7	17	70,8	99	58,6
	Sometimes	29	31,1	5	19,2	3	11,5	5	20,8	42	24,9
	No	16	17,2	2	7,7	8	30,8	2	8,3	28	16,6
TOTAL		93	100	26	100	26	100	24	100	169	100
(d) Time period allowed before repayments start	Yes	12	13,0	14	53,9	9	34,6	6	25,0	41	24,4
	Sometimes	24	26,1	4	15,4	3	11,5	1	4,2	32	19,1
	No	56	60,9	8	30,8	14	53,9	17	70,8	95	56,6
TOTAL		92	100	26	100	26	100	24	100	168	100
(e) Offering revolving credit	Yes	47	50,5	10	38,5	5	19,2	2	8,3	64	37,9
	Sometimes	19	20,4	6	23,1	3	11,5	2	8,3	30	17,8
	No	27	29,0	10	38,5	18	69,2	20	83,3	75	44,4
TOTAL		93	100	26	100	26	100	24	100	169	100
(f) Negotiating conditions of repayment	Yes	78	84,8	20	76,9	19	73,1	15	62,5	132	78,6
	Sometimes	6	6,5	4	15,4	1	3,9	1	4,2	12	7,1
	No	8	8,7	2	7,7	6	23,1	8	33,3	24	14,3
TOTAL		92	100	26	100	26	100	24	100	168	100

TABLE 7.16

FACTORS TAKEN INTO ACCOUNT WHEN DETERMINING INTEREST RATE* AMONG THOSE FINANCIERS (N = 110) WHO DID NOT CHARGE A FIXED INTEREST RATE

Factors influencing interest rate	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Security available (e.g. insurance policy)	43	23,5	2	5,7	-	-	1	6,7	46	19,0
Assessment of the risk involved	36	19,7	4	11,4	-	-	1	6,7	41	16,9
Viability of the business	30	16,4	14	40,0	3	33,3	-	-	47	19,4
The creditworthiness of the business owner	23	12,6	4	11,4	1	11,1	3	20,0	31	12,8
The amount of the loan	21	11,5	3	8,6	1	11,1	3	20,0	28	11,6
The loan period	8	4,4	2	5,7	-	-	2	13,3	12	5,0
Macro-economic trends	19	10,4	2	5,7	-	-	2	13,3	23	9,5
Community ties of business owner	3	1,6	4	11,4	4	44,4	3	20,0	14	5,8
TOTAL	183	100	35	100	9	100	15	100	242	100

* Up to three factors could be mentioned by each respondent.

TABLE 7.17

STEPS TAKEN BY FINANCIERS TO RECOVER DEBTS

Factors influencing interest rate	Type of financiers									
	Banks		Development agencies		Stokvels and savings clubs		Informal money lenders		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) First step										
Discussion or re-negotiation	4	4,4	3	12,5	-	-	2	8,7	9	5,6
Warnings										
Verbal reminders (telephone)	14	15,4	3	12,5	4	16,7	4	17,4	25	15,4
Written reminders	26	28,6	2	8,3	4	16,7	5	21,7	37	22,8
Personal interviews	19	20,9	6	25,0	12	50,0	8	34,8	45	27,8
Actions										
Legal procedings	8	8,8	6	25,0	1	4,2	-	-	15	9,3
Claiming securities/repossessions	17	18,7	4	16,7	2	8,3	3	13,0	26	16,0
Physical violence	-	-	-	-	1	4,2	1	4,3	2	1,2
Cancelling other agreements	3	3,3	-	-	-	-	-	-	3	1,9
TOTAL	91	100	24	100	24	100	23	100	162	100
(b) Second step										
Discussion or re-negotiation	14	15,9	1	5,0	2	8,8	1	6,3	18	12,2
Warnings										
Verbal reminders (telephone)	10	11,4	1	5,0	5	21,7	1	6,3	17	11,6
Written reminders	16	18,2	6	30,0	-	-	-	-	22	15,0
Personal interviews	7	7,9	3	15,0	7	30,4	9	56,2	26	17,7
Actions										
Legal procedings	23	26,1	7	35,0	3	13,0	-	-	33	22,4
Claiming securities/repossessions	14	15,9	2	10,0	5	21,7	3	18,8	24	16,3
Physical violence	-	-	-	-	1	4,3	2	12,5	3	2,0
Cancelling other agreements	4	4,5	-	-	-	-	-	-	4	2,7
TOTAL	88	100	20	100	23	100	16	100	147	100

TABLE 7.18

THE EXTENT TO WHICH FINANCIERS THOUGHT THAT OWNERS OF FORMAL AND INFORMAL BUSINESSES COULD UNDERSTAND LOAN PRINCIPLES

Understanding	Formal businesses		Informal businesses	
	$\overline{X}$	sd	$\overline{X}$	sd
(a) Conditions of the loan				
Banks	4,5	0,8	4,2	0,8
Development agencies	4,5	0,7	3,9	1,1
Stokvels clubs	4,2	1,4	4,0	1,4
Informal money lenders	3,9	1,4	4,0	1,1
TOTAL	4,4	1,0	4,1	1,0
(b) Terminology used in the transaction				
Banks	4.3	0,9	3,9	1,1
Development agencies	4,4	0,8	3,7	1,2
Stokvels clubs	4,1	1,4	3,9	1,5
Informal money lenders	3,9	1,6	3,6	1,2
TOTAL	4,3	1,1	3,8	1,2

$\overline{X}$ = mean; sd = standard deviation

CHAPTER 8

8. REPRESENTATIVES OF BUSINESS ASSOCIATIONS AND THEIR VIEWS ON INFORMAL BUSINESSES

8.1 INTRODUCTION

The need for groups of informal business owners to form co-operatives to enable them to overcome some of their problems has repeatedly been noted. For example, there is a need for co-operative buying, marketing and transport arrangements to be made to reduce costs and increase the efficiency of the functioning of informal businesses in these areas. One way of developing co-operative methods of working together is through the formation of business associations. An association gives its members independence in those areas in which it is desired, while at the same time giving assistance to those members who require it.

In the formal sector, associations offering a support system to various industries in all sectors of the economy have been evident for many years. For example, there are various associations in agriculture, mining, forestry, manufacturing and commerce, representing the interests of the owners of these businesses. These various associations have, in turn, linked up to form federations or chambers representing the interests of larger groups of businesses.

In recent years, members of the informal sector have also begun to build associations to look after their interests. These associations may have a very important role to play in the future development of the informal sector. Not only can they form a support system but they can also play a vital role in training informal business owners to run their businesses more efficiently.

In this chapter attention was focused on associations that have developed in both the formal and the informal sectors. The extent to which the needs of informal business owners are taken into account in these various associations was examined. Interviews were therefore held with either the managers or the administrators of these associations in both the formal and informal sectors to determine each association's approach to the informal sector.

8.2 AIMS OF THE STUDY AS SPECIFICALLY APPLIED TO BUSINESS ASSOCIATIONS

This part of the study therefore aimed

- to give a description of the business associations participating in this study and the type of members or clients they cater for.

- to describe the perceptions that representatives of these associations, namely managers or administrators, hold of the informal sector.
- to describe the services that they offer to members and whether or not these services are available to informal business owners.
- if these services are not available to informal business owners, to explore the possibility of the association actually becoming involved in catering for the informal sector and offering services to informal business in future.
- to discuss the training implications from the information that has been gathered from representatives of business associations.

8.3 DESCRIPTION OF THE BUSINESS ASSOCIATIONS

As indicated in Chapter 1, interviews were held with 65 representatives of business associations. These interviews took place in 15 different geographical districts (Table 8.1). Associations were found in black, coloured or Indian townships (40 %), in central business districts (28 %), in industrial (11 %) and in other areas (Table 8.2).

Among the respondents who answered the question (N = 59), the type of associations they represented (Table 8.3) included small business associations (41 %), chambers of business in the formal sector (20 %), savings clubs and credit associations (10 %), charity organisations (5 %), development organisations (9 %) and other co-operatives such as buying co-operatives and marketing organisations (15 %).

Almost half of the associations (49 %) had branches or were part of a larger federation, while just over half (51 %) were independent associations.

Regarding membership of these associations (Table 8.4), in some but not all cases individuals or companies had to meet certain criteria to be able to belong to them. As far as individual membership is concerned (Table 8.4a), a large proportion of respondents (29 %) said that anyone could join their association, while other associations confined their membership to certain types of people, for example to business people (19 %), to formal business owners (14 %) or to specific types of business owners, for example taxi drivers or hairdressers (14 %), or else the members had to meet specific criteria, such as educational qualifications (6 %) or financial criteria (3 %).

As far as companies are concerned (Table 8.4b), a relatively large group of respondents (26 %) said that no companies, only individuals, could join as members. On the other hand, almost a fifth (19 %) of the respondents said that any company could join the association, while others indicated that only registered organisations (15 %) or organisations catering for specific types of businesses such as transport (8 %) or services (6 %) or savings clubs (5 %) could join.

Of the total number of associations who participated in this study, 24 (37 %) indicated that they actually had informal business owners as members, while 41 (63 %) said they did not (Table 8.5a).

Those associations having informal business owners as members were more likely to allow them to join as individual members, rather than as part of an organisation representing their interests (Table 8.5b and c).

A relatively large group of representatives of associations (62 %) who did not have informal business owners or their organisations as members at the time of the study were, however, willing to consider allowing them to join in future (Table 8.5d).

From this description it seems as if the informal sector is slowly but surely developing organisations to take care of the interests of the sector. It also seems as if informal businesses are gaining at least some acceptance from formal businesses. Not only are there specific organisations catering for the needs of the informal sector, but there are also other formal sector organisations who indicated that they may be prepared to accommodate the informal sector within their structures in future.

A training strategy is therefore needed to encourage the formation of more organisations to cater for the needs of informal business owners. Such a strategy should also encourage formal business associations to accept informal business owners as members. In addition, the development of links between the two sectors and between associations catering for each sector need to be encouraged. These associations can play an important role in actually training informal business owners to acquire the skills that they need for their particular types of business.

8.4 PERCEPTIONS OF INFORMAL BUSINESS

The type of training role that associations can play can be determined at least in part, by the way in which their managers perceive the informal sector. In common with the other groups of respondents, the representatives of business associations were therefore also asked certain questions to determine the perceptions of the informal sector that they hold.

Firstly, they were asked to define the informal sector. Then they were asked to rate the characteristics of informal business owners on a five point scale in terms of 10 sets of adjective pairs. These adjectives were the same as the ones that were rated by the financiers (see Chapter 7). After they were given the description of the informal sector as it was used for the purposes of this study (see

Chapter 1), they were also asked to compare formal and informal businesses with regard to certain characteristics. For example, they were asked to indicate which businesses have prices that differ from day to day — formal or informal ones. This question is similar to the one which the customers (Chapter 4) were required to answer, so that the strengths and weaknesses of this sector could be determined from the customers' point of view. In view of the role that associations can play in training informal business owners, it was regarded as important to identify the strengths and weaknesses of this sector from the point of view of business association representatives.

Another area regarding perceptions of the informal sector that was examined in this part of the study was that of problems that the respondents thought informal business owners had that differed from those of formal business owners. The respondents' opinions regarding specific training needs of informal business owners were also examined.

The final questions that were put to business association representatives to assess their perceptions of the informal sector concerned the best and worst aspects of working with both formal and informal businesses. The responses to each of these aspects are discussed below.

8.4.1 Description of the informal sector

When asked to describe the informal sector, the majority of representatives of business associations (52 %) focused on their lack of official recognition, while another group (10 %) focused on their unregistered premises (Table 8.6). The reader will recall that formal business owners were also likely to focus on the unregistered nature of these businesses, implying that they lack legal status (Chapter 5). In view of the fact that some associations actually represent the interests of formal business owners, this concern with the legality of informal businesses is not surprising. On the other hand, some other respondents, in common with the financiers (Chapter 7), focused on the smallness of size (12 %), the smallness of turnover (10 %) and the survival nature (5 %) of these businesses. Again common concerns are apparent. Among association representatives, membership involves the ability to pay fees, while among financiers, granting loans means thinking about the ability to repay. Thus both groups were concerned with financial aspects of informal businesses.

The training needs regarding legal considerations will be highlighted in Chapter 9. The need for training to enable informal businesses to overcome the problems of smallness of scale have already been discussed.

8.4.2 Ratings of the informal sector

As far as rating the informal business owners in terms of sets of two opposing adjectives is concerned (Table 8.7a), the representatives were likely to view these owners as being rather poor ($\overline{X}$ = 2,5), relatively unskilled ($\overline{X}$ = 2,6) and fairly young ($\overline{X}$ = 2,9). They were, however, also likely to think of informal business owners as being ambitious ($\overline{X}$ = 4,0), competent ($\overline{X}$ = 3,6) and reliable ($\overline{X}$ = 3,6). In general those ratings are similar to the ones given by the financiers to informal business owners (Chapter 7).

A factor analysis (Table 8.7b) indicated that all these ratings loaded on two factors, namely *"motivation"* and *"resources"*. These were the same factors that were identified among financiers. The representatives were therefore inclined to rate informal business owners as having a high level of motivation to succeed, but as having fewer resources such as skills and wealth to enable them to do so.

Two regression analyses using *"motivation"* and *"resources"* as dependent variables indicated the following trends (Table 8.8):

- Perceptions regarding the informal sector as assessed by different questions are related to each other.
- These perceptions group together to influence the extent to which informal business owners are seen as being highly motivated or the extent to which they are seen as lacking in resources.

As far as training is concerned, the view that informal business owners are highly motivated to succeed, but lack the resources to do so, is an encouraging one. The profile that was drawn up of an entrepreneur in Chapter 3 supports this view. Training programmes run by business associations can build up the informal business owners' resources to improve their ability to run their businesses efficiently.

8.4.3 Comparison of formal and informal businesses

When asked to compare formal and informal businesses on a number of characteristics (Table 8.9; Figure 8.1), it is apparent that representatives of business associations were more likely to view informal businesses in a negative light, compared to the actual customers of these businesses (Chapter 4). Only weaknesses, rather than strengths, were identified by the representatives. Informal businesses were seen as having prices that differ from day to day or that differ for different customers; they were also seen as frequently running out of stock, as offering a limited choice to customers, as being untidy and unhygienic and as being inefficiently run. The strengths, from the customers point of view, for example offering a personalised service, offering better customer treatment, giving customer credit and making goods according to the customers' specifications, were not recognised by the representatives of business associations.

This negative picture of informal businesses could possibly have affected the association's acceptance of these business owners as members and the services that are offered to them.

A Boolean factor analysis (Table 8.10) indicated that six factors could be identified regarding the ways in which choices made between the informal and formal sector clustered together. The six factors identified were the following:

- prices
- product image
- management
- convenience
- customer relations
- quality of goods

Six regression analyses using each of these factors as a dependent variable (Table 8.11) again indicated that perceptions are interlinked. The way in which a representative perceived informal business owners with regard to their level of motivation to succeed and their opinion regarding the resources available to informal business owners influenced the perceptions held about the way in which informal businesses were run, the prices that were charged, the products that were sold, the quality of these products, the way in which customers were treated and the convenience of using informal businesses.

From a training point of view, these negative opinions held about the services, prices, customer relations, quality of goods and management of informal businesses need to be tackled. Information needs to be given to representatives of business associations and their members regarding the strengths of the informal sector, not only the weaknesses. The reasons why customers make use of informal businesses need to be made more widely known. Training given by these associations can then focus on both the strengths and the weaknesses of this sector. At present, it is likely that training focuses only on weaknesses.

8.4.4 Perceptions regarding problems and training needs of the informal sector

Regarding whether or not the respondents felt that informal business owners had problems that differed from those that formal business owners had, more than three quarters of the respondents (79 %) felt that the problems of the two sectors did indeed differ from each other (Table 8.12a).

Financial problems (22 %), lack of business skills (17 %), lack of opportunities for advancement (16 %), harassment and victimisation by the authorities (14 %) were the most frequently mentioned problems (Table 8.12b) of informal business owners.

These problems and the contribution that training can make to help to overcome them, with the exception of treatment by the authorities (see Chapter 9), have already been discussed. Business associations representing the interests of informal business owners can have an important training role to play in helping to solve these problems.

It is therefore relevant to note that the main training needs for the informal sector identified by these representatives (Table 8.12c) include general business management (24 %), financial management (16 %), marketing, advertising and selling (13 %), customer relations (13 %) and training to offer specific services or products (11 %). The extent to which the associations, in which interviews were held, actually offer this type of training will be examined in a later section of this chapter.

8.4.5 Best and worst aspects of working with formal and informal businesses

Replies to questions regarding the best and worst aspects of working with formal and with informal businesses summarise most of the perceptions that have been discussed thus far. While relatively few respondents answered these questions, since they were directed only at those associations into which informal business owners are actually admitted, nevertheless the main strengths and weaknesses of both sectors are apparent (Table 8.13).

In the opinion of representatives of business associations, formal business owners have good business and financial records and their businesses are legally recognised (Table 8.13a). On the other hand these owners are sometimes arrogant, they do not always pay their fees and they handle customers and others in an impersonal manner (Table 8.13c).

Informal business owners, on the other hand, in the opinion of these respondents, have needs that are easier to meet than those of formal business owners; they tend to establish good interpersonal contacts, while at the same time they enable people who help them to feel altruistic (Table 8.13b). On the other hand, their businesses are risky, unstable ventures that are poorly managed. Informal business owners may experience problems in paying fees and clashes between members can occur (Table 8.13d).

8.5 SERVICES OFFERED TO INFORMAL BUSINESSES

As we have already noted, relatively few of the associations where interviews were conducted actually had informal business owners as members (Table 8.5a). Among those who did have informal business owners as members, the respondents were asked to indicate what the advantages were, in their opinion, for informal business owners to belong to the association. They were also asked to describe the actual services that they offered for informal and for formal business owners and how, if applicable, these services differ from each other.

8.5.1 Advantages of belonging to an association

As far as the opinions of the respondents regarding the advantages of belonging to an association are concerned, it is apparent that at least some of the problems that have been mentioned in previous chapters can be tackled by an informal business owner, if he or she joins an association.

Help with marketing (22 %), with financial management (26 %) and with legal matters (28 %) is available (Table 8.14). Training (22 %) is also available, and so, to a lesser extent, is access to other businesses such as suppliers (4 %).

The advantages of facilitating the formation of associations looking after the interests of informal business owners as part of a training strategy for the development of informal businesses is therefore clearly apparent. However, such associations should be encouraged to develop voluntarily, at grass roots level, so that the business owners themselves participate in their formation and development. Organisations that are developed without involving the people whose problems they are trying to solve are likely to be less effective. The members should decide what services they want and how they want these services to be offered by the association. Even the training that is offered by an association is likely to be more effective if such training is based on the needs of the members as seen from their point of view (Todaro 1985).

8.5.2 Services that are offered to members

In those organisations that have informal business owners as members, the respondents were asked to indicate the specific services that the association offers.

The findings of the research (Table 8.15) indicated that associations offer a variety of different types of services to their members. However, more than 40 % of these associations offered the following services to their members:

- management training

- business training
- consultation
- co-operative advertising
- access to business premises
- legal assistance
- access to loans
- discounted prices from suppliers

These are the type of services that are needed to enable informal business owners to establish their businesses, to run them efficiently, to expand them and, if they wish to do so, to enter the formal sector. The need to encourage the development of these associations is therefore again clearly apparent.

8.5.3 Differences in services offered to formal and informal owners

In view of the differences in access to resources available to formal and informal business owners (Chapter 3), different types of services may be needed from the associations for each of the two sectors. Different criteria for membership may be needed and, within these associations, different approaches to training for members of each sector may need to be taken.

The representatives of business associations that allow informal business owners to join were consequently asked to indicate whether or not there were any differences in services, in methods of dealing with and in the facilities available to formal and to informal business owners (Table 8.16).

The research findings show, that in general, organisations having both formal and informal business owners as members do treat them differently. Lower membership fees are charged for informal business owners, but certain privileges, for example access to medical aid schemes, discounts for services and access to shareholders' schemes are not available to them. Training for both sectors also differs according to course contents, methods used and fees charged in some organisations.

Whether or not all these differences actually benefit informal business owners is, at this stage, not very clear. However, it is recognised that certain differences, at least until informal businesses become established, may be necessary. At least, in some organisations, access is being granted to informal business owners. The advantages of belonging to an association have already been discussed. However, as we have already noted, in some associations, they are denied this access. The possibility of gaining access to these associations in future is explored in the following section.

8.6 ASSOCIATIONS THAT DO NOT HAVE INFORMAL BUSINESS OWNERS AS MEMBERS

Even though, at present, informal business owners are not admitted to certain associations, some of these associations may be prepared to admit informal business owners in future.

The respondents in those associations who do not at present cater for informal business owners (N = 41) were therefore asked to indicate whether or not they would consider admitting them to their association in future. It is encouraging to note that 62 % of the representatives indicated that they would be prepared to do so (Table 8.5d).

The main positive reasons given for saying that they would consider opening membership to informal sector business owners (Table 8.17) were

- the mutual benefits that would accrue to both parties (22 %) such as sharing interests and facilities and supporting each other and
- the desire of the association to help to develop entrepreneurship in the country or in the relevant district (19 %).

On the other hand, the main negative reasons given by the representatives were

- the inability of informal business owners to meet membership criteria (17 %),
- the illegal status of these businesses (11 %) and
- the perception that informal business owners are troublemakers (8 %).

The next question that was asked to those respondents in associations where informal business owners were not admitted, concerned the type of services they could offer if they changed their policy and decided to admit informal business owners. It is relevant to note (Table 8.18) that these services are similar to the ones that are already offered by those organisations that actually allow informal business owners to join them.

Management and business training, a consultation service, co-operative marketing and buying, legal assistance, transport assistance and distribution services are likely to be made available to informal business owners if they are eventually accepted by those organisations that do not, at present, accept them.

8.6.1 Conclusions

While respecting the rights of members of an association to decide on whom they wish to admit as members, every effort should be made to try to encourage business associations to accept informal business owners as members.

Thus both grassroots associations and those that cater for formal businesses would be encouraged to accept informal business owners and to cater for their needs. By giving recognition to informal business owners and by incorporating them into existing formal structures, for example by allowing them to join formal associations, vital links between formal and informal businesses can be established. Instead of the informal sector merely creating ripples (as discussed in Chapter 1) it can become a dynamic and essential part of the mainstream economic activities.

8.7 POSSIBLE TRAINING AND EDUCATION IMPLICATIONS

In previous chapters, the strengths of co-operatives have repeatedly been identified. This chapter confirms the important role that associations can play, not only in training but also in providing concrete help to businesses to allow them to grow and develop.

- As part of a training strategy for informal businesses, associations looking after the interests of informal business owners should be encouraged to develop at grass roots level.

- At the same time existing associations catering for the formal sector should be encouraged to accept informal business owners, or in federations, their associations as members.

- Links between formal and informal business associations should be formed. A training strategy can adopt as part of its policy, the principle of encouraging these links to take place.

- The important role that associations play in giving training to members needs to be recognised and this training role should be encouraged.

- The principles of modular training should be introduced into business associations.

- In addition, counselling services offered by these associations should also be encouraged to develop as part of a training strategy, since counselling is an essential part of training.

- Informal business owners can receive specific training in how to form an association.

- Training also needs to be given in how to manage such an association.

- When associations give training, it is important to stress the strengths of the informal businesses as identified by customers as a basis for further training.

- Training that is based purely on weaknesses is less likely to succeed.

- In general, as part of a training strategy, attempts should be made to improve the image that people have of informal businesses.

TABLE 8.1

GEOGRAPHICAL DISTRICT IN WHICH ASSOCIATION WAS SITUATED

		N	%
Johannesburg	: White	4	6,2
	: Black	3	4,6
	: Coloured	1	1,5
Cape Town	: White	2	3,1
	: Black	5	7,7
Port Elizabeth	: Black	4	6,2
	: Coloured	2	3,1
	: Indian	1	1,5
Durban	: White	2	3,1
	: Black	7	10,8
	: Indian	2	3,1
Bloemfontein	: White	1	1,5
	: Black	2	3,1
Newcastle	: White	2	3,1
	: Black	2	3,1
Nelspruit	: White	2	3,1
	: Black	1	1,5
George	: White	3	4,6
	: Black	2	3,1
Witbank	: White	3	4,6
Pietersburg	: Black	2	3,1
Queenstown	: White	1	1,5
	: Black	2	3,1
Harrismith	: White	1	1,5
	: Black	1	1,5
De Aar	: Black	2	3,1
King William's Town	: Black	2	3,1
Upington	: White	1	1,5
	: Black	2	3,1
TOTAL		65	100

TABLE 8.2

TYPE OF AREA IN WHICH THE ASSOCIATION WAS FOUND

	N	%
Industrial area	7	10,8
Central business district	18	27,7
Residential area	6	9,2
Outskirts of a city/town	2	3,1
Rural area	2	3,1
In a township	26	40,0
Other	4	6,2
TOTAL	65	100

TABLE 8.3

POPULATION GROUP OF THE ASSOCIATION'S MEMBERS ACCORDING TO TYPE OF ASSOCIATION

		Whites		All groups		TOTAL	
		N	%	N	%	N	%
Chambers of business	N	8	57,1	4	8,9	12	20,3
	%	66,7		33,3		100	
Development associations	N	2	14,3	3	6,7	5	8,5
	%	40,0		60,0		100	
Small business association	N	3	21,4	21	46,7	24	40,7
	%	12,5		87,5		100	
Charity organizations	N	1	7,1	2	4,4	3	5,1
	%	33,3		66,7		100	
Savings clubs and loan associations	N			6	13,3	6	10,2
	%			100		100	
Other	N			9	20,0	9	15,3
	%			100		100	
TOTAL	N	14	100	45	100	59	100
	%	23,7		76,3		100	

TABLE 8.4

CRITERIA FOR MEMBERSHIP OF ASSOCIATIONS

(a) Type of individual who can join/be a client of the association

	N	%
Any business person (including informal)	12	18,5
Only formal business owners	9	13,8
Owner of a specific type of business	9	13,8
Only women	7	10,8
Anyone	19	29,2
Educational or other qualifications or criteria	4	6,2
Only companies/no individuals	2	3,1
Those who meet financial criteria	2	3,1
Not specified	1	1,5
TOTAL	65	100

(b) Type of organization that can join the association

	N	%
Any organization	12	18,5
Any registered organization	10	15,4
Any transport organization	5	7,7
Only individual members	17	26,2
Organizations offering specific service	4	6,2
Charity or community organizations	5	7,7
Only savings clubs	3	4,6
Any non-political organization	3	4,6
Type of organization not specified	6	9,2
TOTAL	65	100

TABLE 8.5

THE STATUS OF INFORMAL BUSINESS OWNERS IN THESE ASSOCIATIONS

(a) Whether or not informal business owners are accepted as members of these associations

	N	%
Yes	24	36,9
No	41	63,1
TOTAL	65	100

(b) Among associations (N = 24) that accept informal business owners the percentage of individual members who are informal business owners

	N	%
15 % or less	4	18,2
16 - 30 %	4	18,2
31 - 50 %	8	36,4
51 - 95 %	3	13,6
96 - 100 %	3	13,6
TOTAL	22	100

(c) Percentage of organizations that represent informal businesses who are members

	N	%
5 % or less	5	31,3
6 - 30 %	5	31,3
31 - 50 %	3	18,8
51 - 95 %	2	12,5
96 - 100 %	1	6,3
TOTAL	16	100

(d) Among those associations with no informal sector representation, whether they would consider allowing informal business owners to join in future

	N	%
Yes	23	62,2
No	14	37,8
TOTAL	37	100

TABLE 8.6

RESPONDENTS' DESCRIPTION OF THE INFORMAL SECTOR ACCORDING TO POPULATION GROUP OF THE MAJORITY OF MEMBERS

Definition of informal sector	White		All groups		TOTAL	
	N	%	N	%	N	%
Lack of official recognition	8	53,3	23	51,1	31	51,7
Operating from unregistered premises	1	6,7	5	11,1	6	10,0
Smallness of size	2	13,3	5	11,1	7	11,7
Small turnover and profits			6	13,3	6	10,0
Survival business	2	13,3	1	2,2	3	5,0
Inexperienced business owners			1	2,2	1	1,7
Business run by creative people	2	13,3	4	8,9	6	10,0
TOTAL	15	100	45	100	60	100

TABLE 8.7

THE WAY IN WHICH RESPONDENTS PERCEIVED THE INFORMAL SECTOR

(a) Respondents' ratings reflecting the image they have of informal business owners

	$\overline{X}$	sd
Disadvantaged - Advantaged	3,1	1,3
Unskilled - Skilled	2,6	1,2
Poor - Rich	2,5	0,8
Illiterate - Literate	3,1	0,9
Young - Old	2,9	0,8
Lacking ambition - Ambitious	4,0	1,1
Conforming - Unconventional	3,0	1,1
Unreliable - Reliable	3,6	1,2
Static - Innovative	3,5	1,1
Incompetent - Competent	3,6	1,2

$\overline{X}$ = mean; sd = standard deviation

(b) Rotated factor loadings - image of informal business owners

	Factor 1 Motivation	Factor 2 Resources
Static - Innovative	0,78	
Lacking ambition - Ambitious	0,62	
Incompetent - Competent	0,61	
Unreliable - Reliable	0,50	
Poor - Rich		0,67
Illiterate - Literate		0,56
Unskilled - Skilled		0,56
Conforming - Unconventional		0,39
Disadvantaged - Advantaged		0,48
Young - Old		0,26

TABLE 8.8

VARIABLES INFLUENCING BUSINESS ASSOCIATION REPRESENTATIVES' IMAGE OF INFORMAL BUSINESS OWNERS AS BEING MOTIVATED OR AS HAVING THE NECESSARY RESOURCES

Variables		Motivation	Resources
Intercept		14,37**	9,20**
Population group of the majority of members	White All		
Opinions on whether informal and formal business have different problems	Yes No		-0,62*** 0,62***
Informal businesses can join the association	Yes No		
Informal businesses have variable prices		-0,71**	
Informal businesses have a poor product image			
Informal businesses are poorly managed		-0,49**	
Informal businesses are convenient			0,66**
Good customer relations			
Good quality products		1,03**	

*** p < 0,01
** p < 0,05
* p < 0,10

TABLE 8.9

PERCEPTIONS OF REPRESENTATIVES OF BUSINESS ASSOCIATIONS REGARDING FORMAL AND INFORMAL BUSINESSES

Differences		Population group of members				TOTAL	
		White		All			
		N	%	N	%	N	%
Inflated prices	Informal	7	46,7	25	50,0	32	49,2
	Formal	8	53,3	25	50,0	33	50,8
	TOTAL	15	100	50	100	65	100
Prices differ daily	Informal	10	71,4	35	70,0	45	70,3
	Formal	4	28,6	15	30,0	19	29,7
	TOTAL	14	100	50	100	64	100
Prices differ for different customers	Informal	10	71,4	40	80,0	50	78,1
	Formal	4	28,6	10	20,0	14	21,9
	TOTAL	14	100	50	100	64	100
Run out of stock	Informal	14	93,3	44	88,0	58	89,2
	Formal	1	6,7	6	12,0	7	10,8
	TOTAL	15	100	50	100	65	100
Limited choice	Informal	15	100	39	78,0	54	83,1
	Formal			11	22,0	11	16,9
	TOTAL	15	100	50	100	65	100
More tidy	Informal	2	13,3	6	12,0	8	12,3
	Formal	13	86,7	44	88,0	57	87,7
	TOTAL	15	100	50	100	65	100
More hygienic	Informal	2	13,3	3	6,0	5	7,7
	Formal	13	86,7	47	94,0	60	92,3
	TOTAL	15	100	50	100	65	100
Run efficiently	Informal	1	6,7	7	14,3	8	12,5
	Formal	14	93,3	42	85,7	56	87,5
	TOTAL	15	100	49	100	64	100
Better customer treatment	Informal	7	46,7	19	38,0	26	40,0
	Formal	8	53,3	31	62,0	39	60,0
	TOTAL	15	100	50	100	65	100
More convenient hours	Informal	7	46,7	20	40,0	27	41,5
	Formal	8	53,3	30	60,0	38	58,5
	TOTAL	15	100	50	100	65	100
Guarantee product quality	Informal	2	13,3	2	4,0	4	6,2
	Formal	13	86,7	48	96,0	61	93,8
	TOTAL	15	100	50	100	65	100
Guarantee workmanship	Informal	3	20,0	3	6,0	6	9,2
	Formal	12	80,0	47	94,0	59	90,8
	TOTAL	15	100	50	100	65	100
Serve customers in their own language	Informal	10	71,4	38	77,6	48	76,2
	Formal	4	28,6	11	22,4	15	23,8
	TOTAL	14	100	49	100	63	100
Give customers equal treatment, irrespective of race	Informal	7	50,0	25	51,0	32	50,8
	Formal	7	50,0	24	49,0	31	49,1
	TOTAL	14	100	49	100	63	100
Allow customer to pay later	Informal	5	33,3	21	42,0	26	40,0
	Formal	10	66,7	29	58,0	39	60,0
	TOTAL	15	100	50	100	65	100
Allow customer to open an account	Informal			10	20,0	10	15,4
	Formal	15	100	40	80,0	55	84,6
	TOTAL	15	100	50	100	65	100

TABLE 8.9 (Continued)

PERCEPTIONS OF REPRESENTATIVES OF BUSINESS ASSOCIATIONS REGARDING FORMAL AND INFORMAL BUSINESSES

Differences		Population group of members				TOTAL	
		White		All			
		N	%	N	%	N	%
Allow customer to put down a lay-by	Informal	1	6,7	8	16,3	9	14,1
	Formal	14	93,3	41	83,7	55	85,9
	TOTAL	15	100	49	100	64	100
Offer a personalised service	Informal	8	57,1	21	42,9	29	46,0
	Formal	6	42,9	28	57,1	34	54,0
	TOTAL	14	100	49	100	63	100
Order goods for customers personally	Informal	5	35,7	13	26,5	18	28,6
	Formal	9	64,3	36	73,5	45	71,4
	TOTAL	14	100	49	100	63	100
Manufacture goods according to customers' specifications	Informal	5	35,7	10	20,4	15	23,8
	Formal	9	64,3	39	79,6	48	76,2
	TOTAL	14	100	49	100	63	100
Goods well displayed	Informal	2	13,3	8	16,0	10	15,4
	Formal	13	86,7	42	84,0	55	84,6
	TOTAL	15	100	50	100	65	100
Better quality goods	Informal	3	20,0	5	10,0	8	12,3
	Formal	12	80,0	45	90,0	57	87,7
	TOTAL	15	100	50	100	65	100
Delivery services	Informal	4	26,7	2	4,1	6	9,4
	Formal	11	73,3	47	95,9	58	90,6
	TOTAL	15	100	49	100	64	100
Keep promises re delivery dates	Informal	4	26,7	5	10,2	9	14,1
	Formal	11	73,3	44	89,8	55	85,9
	TOTAL	15	100	49	100	64	100

TABLE 8.10

BOOLEAN FACTOR LOADINGS ON COMPARISONS OF FORMAL AND INFORMAL BUSINESSES

Items	Prices	Product image	Management	Convenience	Customer relations	Quality of goods
Inflated prices	•					
Prices differ daily	•					
Prices differ for different customers	•					
Run out of stock			•			
Limited choice		•				
More tidy		•				
More hygienic		•				
More efficient			•			
Better customer treatment					•	
More convenient hours				•		
Guarantee product quality						•
Guarantee workmanship						•
Serve you in your own language					•	
Equal treatment of customers irrespective of race					•	
Allow you to pay later			•			
Allow you to open an account			•			
Allow you to put down a lay-by			•			
Offer a personalised service					•	
Order goods for you personally					•	
Manufacture goods according to your specifications					•	
Goods well displayed		•				
Better quality goods						•
Better delivery service				•		
Keeping delivery promises				•		

TABLE 8.11

VARIABLES INFLUENCING THE IMAGE OF THE INFORMAL SECTOR

Variables		Prices	Product image	Management	Convenience	Customer relations	Quality of goods
Intercept		1,18***	6,62***	7,85***	0,15***	9,45***	-0,19**
Population group of the majority of customers	White				-0,10**		
	All				0,10**		
Opinions on whether informal and formal businesses have different problems	Yes		0,25*	0,34*			
	No		-0,25*	-0,34*			
Informal businesses can join the association	Yes		-0,21*			0,51**	0,08***
	No		0,21*			-0,51**	-0,08***
Informal business owners are entrepreneurs		-0,05**		-0,19***		-0,32***	0,03**
Informal business owners are struggling to survive				0,24**		0,33***	(a)

(a) not significant
*** p < 0,01
** p < 0,05
* p < 0,10

TABLE 8.12

PROBLEMS AND TRAINING NEEDS OF INFORMAL BUSINESS OWNERS

(a) Problems differ from those of formal sector

	N	%
Yes	51	78,5
No	14	21,5
TOTAL	65	100

(b) If yes, types of problems

	N°	%
Lack of adequate tools and equipment	8	6,6
Financial problems	27	22,1
Harassment and victimisation	17	13,9
Inadequate business premises	12	9,8
Lack of skills to run a business	21	17,2
Lack of opportunities for advancement	19	15,6
Do not have tax numbers	9	7,4
No legal recourse	4	3,3
Meeting health requirements	5	4,1
TOTAL	122	100

(c) The main training needs of informal businesses(*)

	N	%
Financial management	26	15,7
How to start a business	8	4,8
General business management	39	23,5
Marketing, advertising and selling	22	13,3
Customer relations	21	12,7
Bookkeeping and record keeping	13	7,8
Training for making specific product/offering specific service	18	10,8
How to meet legal requirements/become formal	12	7,2
Health and cleanliness	4	2,4
Literacy	1	0,6
Do not need training	2	1,2
TOTAL	166	100

(*) Each respondent could mention up to three training needs

TABLE 8.13

BEST AND WORST ASPECTS OF WORKING WITH FORMAL AND INFORMAL BUSINESSES

(a) Best aspects of working with formal businesses

Aspect	White		All		TOTAL	
	N	%	N	%	N	%
Nothing best	1	20,0	4	23,5	5	22,7
Owners have good business record	1	20,0	4	23,5	5	22,7
Financially secure	1	20,0	3	17,6	4	18,2
Legally recognised	2	40,0	5	29,4	7	31,8
Fixed premises			1	5,9	1	4,6
TOTAL	5	100	17	100	22	100

(b) Best aspects of working with informal businesses

Aspect	White		All		TOTAL	
	N	%	N	%	N	%
Altruism/helping others			5	29,4	5	23,8
Nothing best	1	25,0	1	5,9	2	9,5
Needs are easier to meet than formal sector needs	3	75,0	4	23,5	7	33,3
Good interpersonal relations			6	35,3	6	28,6
Community involvement			1	5,9	1	4,8
TOTAL	4	100	17	100	21	100

(c) Worst aspects of working with formal businesses

Aspect	White		All		TOTAL	
	N	%	N	%	N	%
Arrogant attitudes	2	40,0	8	47,1	10	45,5
Problems with payment of fees	1	20,0	4	23,5	5	22,7
Nothing bad	2	40,0	4	23,5	6	27,3
Impersonal contacts			1	5,9	1	4,6
TOTAL	5	100	17	100	22	100

(d) Worst aspects of working with informal businesses

Aspect	White		All		TOTAL	
	N	%	N	%	N	%
Businesses are poorly managed	1	20,0	2	11,1	3	13,0
Nothing bad	1	20,0			1	4,4
Problems with payments of fees			5	27,8	5	21,7
Unstable, high risk businesses	2	40,0	4	22,2	6	26,1
Clashes between members	1	20,0	4	22,2	5	21,7
Insufficient training			3	16,7	3	13,0
TOTAL	5	100	18	100	23	100

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TABLE 8.14

ADVANTAGES FOR INFORMAL BUSINESS OWNERS OF BELONGING TO AN ASSOCIATION ACCORDING TO POPULATION GROUP OF MAJORITY OF MEMBERS(*)

Aspect	White		All		TOTAL	
	N	%	N	%	N	%
Help with marketing	1	10,0	10	24,4	11	21,6
Help with finance	3	30,0	10	24,4	13	25,5
Help with legal matters	3	30,0	11	26,8	14	27,5
Help through training	3	30,0	8	19,5	11	21,6
Access to other businesses			2	4,9	2	3,9
TOTAL	10	100	41	100	51	100

*Each respondent could list up to three advantages

TABLE 8.15

THE SERVICES THAT ARE ACTUALLY OFFERED TO INFORMAL BUSINESS OWNERS AMONG THOSE ORGANISATIONS WHO DO HAVE INFORMAL BUSINESS OWNERS AS MEMBERS

		N	%
Management training	Yes	13	56,5
	No	10	43,5
	TOTAL	23	100
Business training	Yes	11	47,8
	No	12	52,2
	TOTAL	23	100
Technical training	Yes	4	17,4
	No	19	82,6
	TOTAL	23	100
Consultation	Yes	11	47,8
	No	12	52,2
	TOTAL	23	100
Co-operative marketing	Yes	5	21,7
	No	18	78,3
	TOTAL	23	100
Co-operative buying	Yes	9	39,1
	No	14	60,9
	TOTAL	23	100
Co-operative advertising	Yes	11	47,8
	No	12	52,2
	TOTAL	23	100
Access to business premises	Yes	11	47,8
	No	12	52,2
	TOTAL	23	100
Hiring of equipment	Yes	7	30,4
	No	16	69,6
	TOTAL	23	100
Legal assistance	Yes	13	56,5
	No	10	43,5
	TOTAL	23	100
Loans	Yes	13	56,5
	No	10	43,5
	TOTAL	23	100
Transport	Yes	4	17,4
	No	19	82,6
	TOTAL	23	100
Distribution of goods	Yes	7	30,4
	No	16	69,6
	TOTAL	23	100
Discounted prices from suppliers	Yes	11	47,8
	No	12	52,2
	TOTAL	23	100

3 3

TABLE 8.16

AMONG THOSE ASSOCIATIONS WHO CATER FOR THE INFORMAL SECTOR (N = 24), WHETHER OR NOT THE ASSOCIATION DEALS DIFFERENTLY WITH FORMAL AND INFORMAL BUSINESS OWNERS

Service/method or facility	There are differences		Ways in which dealings differ
	N	%*	
Type of training offered	11	45,8	Contents of training differ Methods of training differ Fees for training differ
Method of attracting members	12	50,0	Methods of establishing contact differ Methods of advertising differ Services offered to attract people differ
Criteria for acceptance by the association	13	54,2	Certain criteria for example, fixed addresses, are waived for informal business owners
Type of service offered	9	37,5	Certain benefits, for example access to medical aid schemes, are not available for informal business owners
Type of membership (for example associate or full membership)	9	37,5	Certain privileges, for example shareholder's schemes, are not available for informal business owners
Membership fees	12	50,0	Lower membership fees are charged for informal business owners
Membership privileges	8	33,3	Discounts for services not applicable to informal sector owners

* The numbers and percentages in this table take into account whether or not the service is offered among those associations that do allow informal businesses to join as members or to use the services as clients.

TABLE 8.17

AMONG THOSE ASSOCIATIONS WITH NO INFORMAL SECTOR REPRESENTATION, REASONS WHY ASSOCIATIONS WOULD/WOULD NOT ALLOW INFORMAL BUSINESS OWNERS OR THEIR ASSOCIATIONS TO JOIN

	N	%
Positive reasons		
The association would like to be open to all	2	5,6
Informal businesses form part of business world	2	5,6
Large numbers of people are involved	1	2,8
The association wants to develop entrepreneurship	7	19,4
The association and the informal business owner can both benefit	8	22,2
Subtotal	20	55,6
Negative reasons		
Informal business owners would not meet membership criteria	6	16,7
The association caters for those businesses that conform to the law	4	11,1
Fees would be too high	1	2,8
Informal business owners are troublemakers	3	8,3
Organization is too small to accept informal owners	1	2,8
The other members would not approve	1	2,8
Subtotal	16	44,4
TOTAL	36	100

3 5

TABLE 8.18

AMONG THOSE WHO DID NOT ALLOW INFORMAL BUSINESS CLIENTS OR MEMBERS: IF ASSOCIATION DID ALLOW INFORMAL BUSINESS OWNERS TO JOIN, SERVICES THEY COULD OFFER

		N	%
Management training	Yes	29	74,4
	Uncertain	2	5,1
	No	8	20,5
	TOTAL	39	100
Business training	Yes	28	71,8
	Uncertain	3	7,7
	No	8	20,5
	TOTAL	39	100
Technical training	Yes	12	30,8
	Uncertain	7	17,9
	No	20	51,3
	TOTAL	39	100
Consultation	Yes	24	61,5
	Uncertain	10	25,6
	No	5	12,8
	TOTAL	39	100
Co-operative marketing	Yes	22	56,4
	Uncertain	4	10,3
	No	13	33,3
	TOTAL	39	100
Co-operative buying	Yes	28	71,8
	Uncertain	2	5,1
	No	9	23,1
	TOTAL	39	100
Co-operative advertising	Yes	23	59,0
	Uncertain	3	7,7
	No	13	33,3
	TOTAL	39	100
Access to business premises	Yes	21	53,8
	Uncertain	8	20,5
	No	10	25,6
	TOTAL	39	100
Hiring of equipment	Yes	17	41,5
	Uncertain	5	12,2
	No	19	46,3
	TOTAL	41	100
Legal assistance	Yes	25	61,0
	Uncertain	10	24,4
	No	6	14,6
	TOTAL	41	100
Loans	Yes	20	48,8
	Uncertain	6	14,6
	No	15	36,6
	TOTAL	41	100
Transport assistance for the business	Yes	22	53,7
	Uncertain	4	9,8
	No	15	36,6
	TOTAL	41	100
Distribution service for goods	Yes	23	56,1
	Uncertain	2	4,9
	No	16	39,0
	TOTAL	41	100

FIGURE 8.1
PERCENTAGE OF RESPONDENTS REPRESENTING BUSINESS ASSOCIATIONS WHO CHOSE INFORMAL SECTOR BUSINESSES ACCORDING TO THE POPULATION GROUP OF THE MAJORITY OF THEIR CLIENTS OR MEMBERS

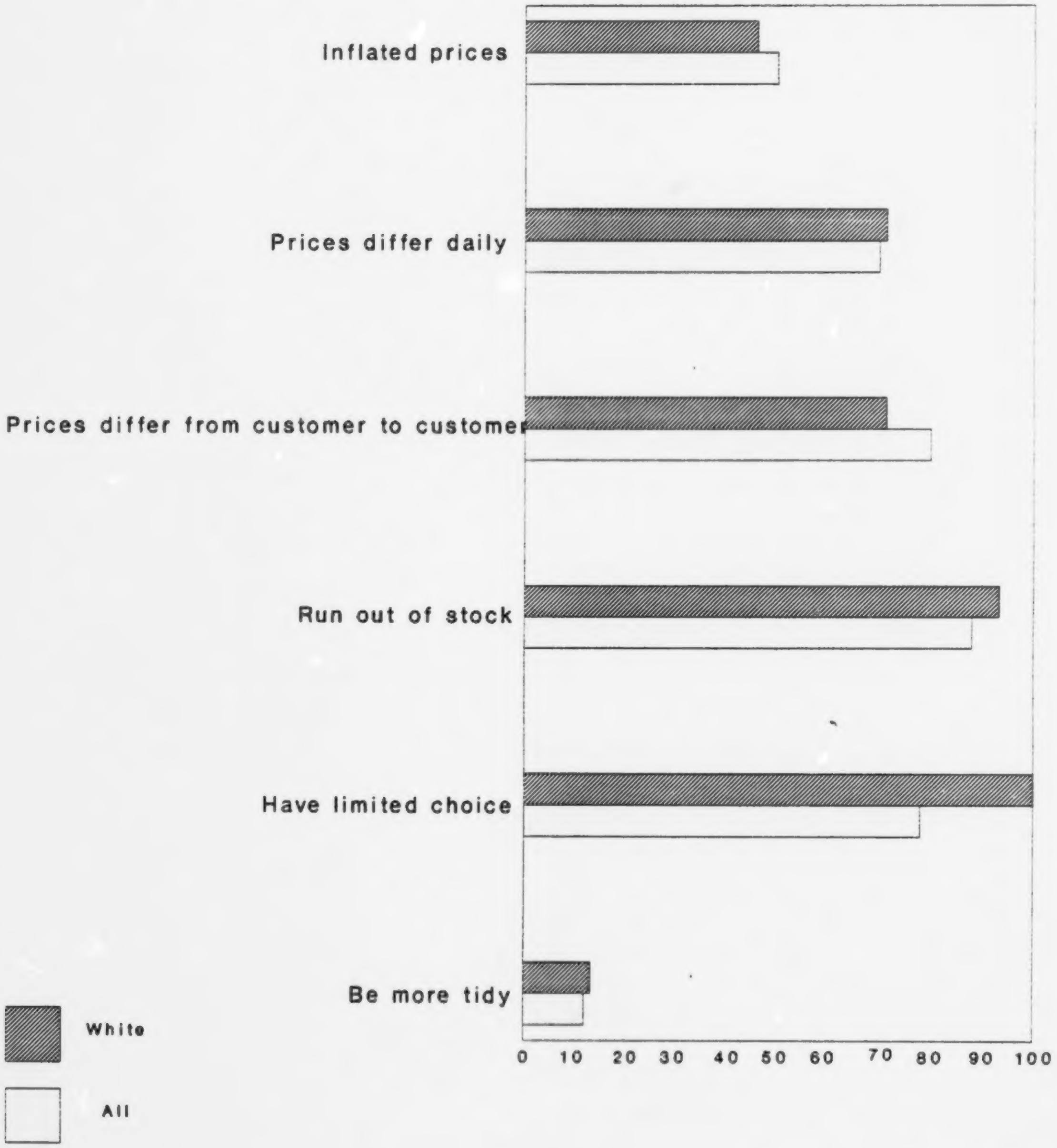


FIGURE 8.1 (Continued)
PERCENTAGE OF RESPONDENTS REPRESENTING BUSINESS ASSOCIATIONS WHO CHOSE INFORMAL SECTOR BUSINESSES ACCORDING TO THE POPULATION GROUP OF THE MAJORITY OF THEIR CLIENTS OR MEMBERS

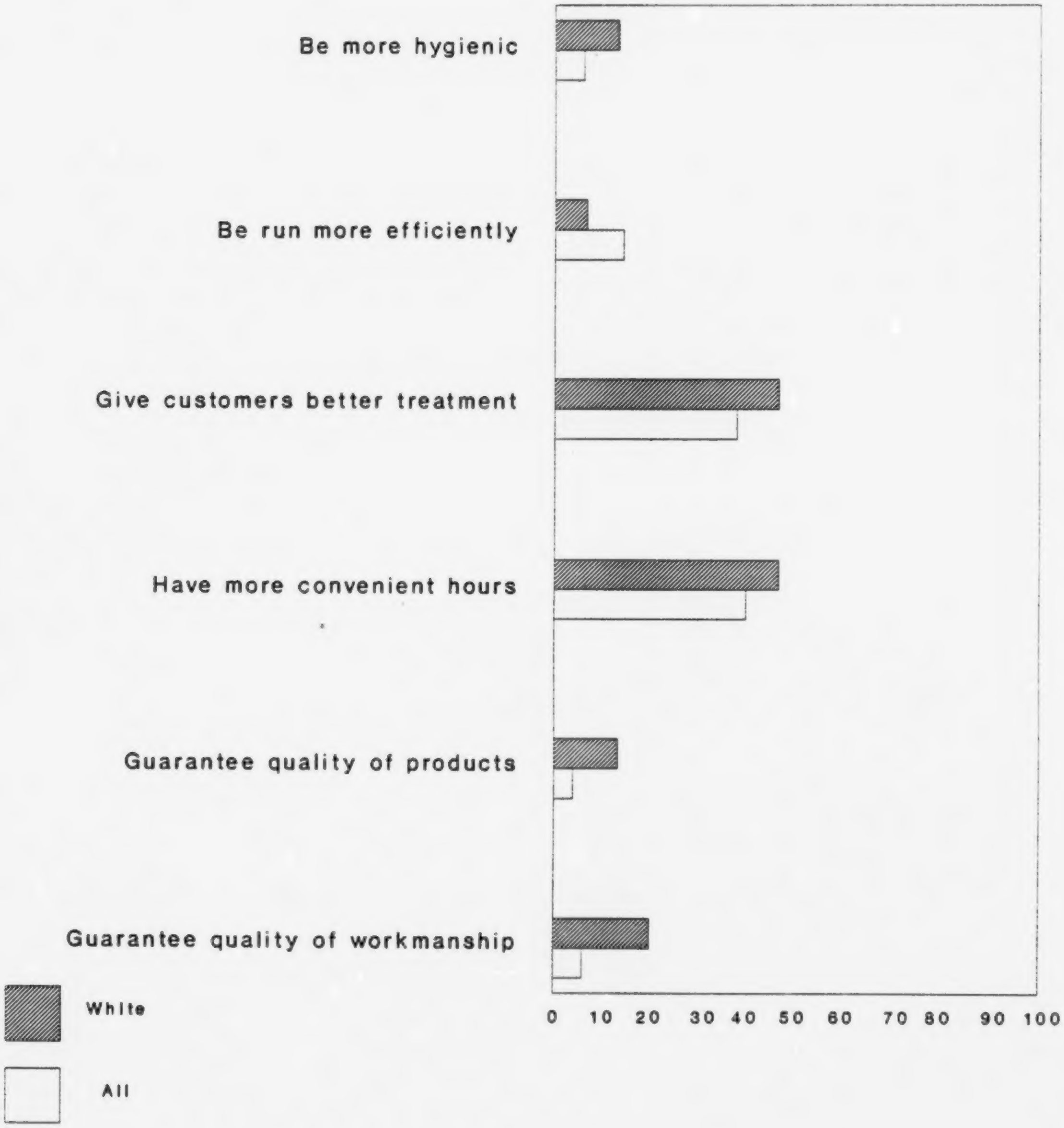


FIGURE 8.1 (Continued)

PERCENTAGE OF RESPONDENTS REPRESENTING BUSINESS ASSOCIATIONS WHO CHOSE INFORMAL SECTOR BUSINESSES ACCORDING TO THE POPULATION GROUP OF THE MAJORITY OF THEIR CLIENTS OR MEMBERS

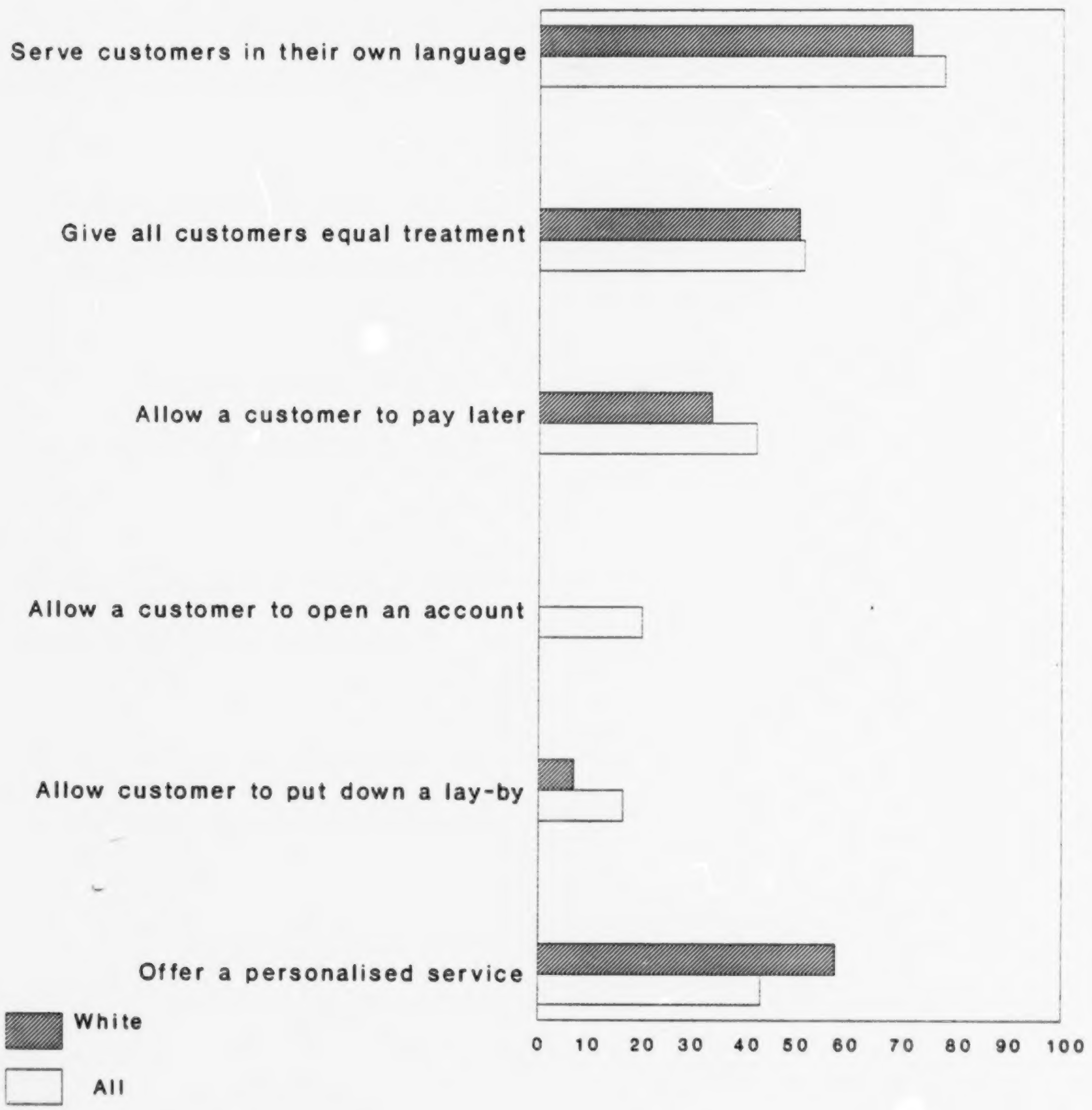
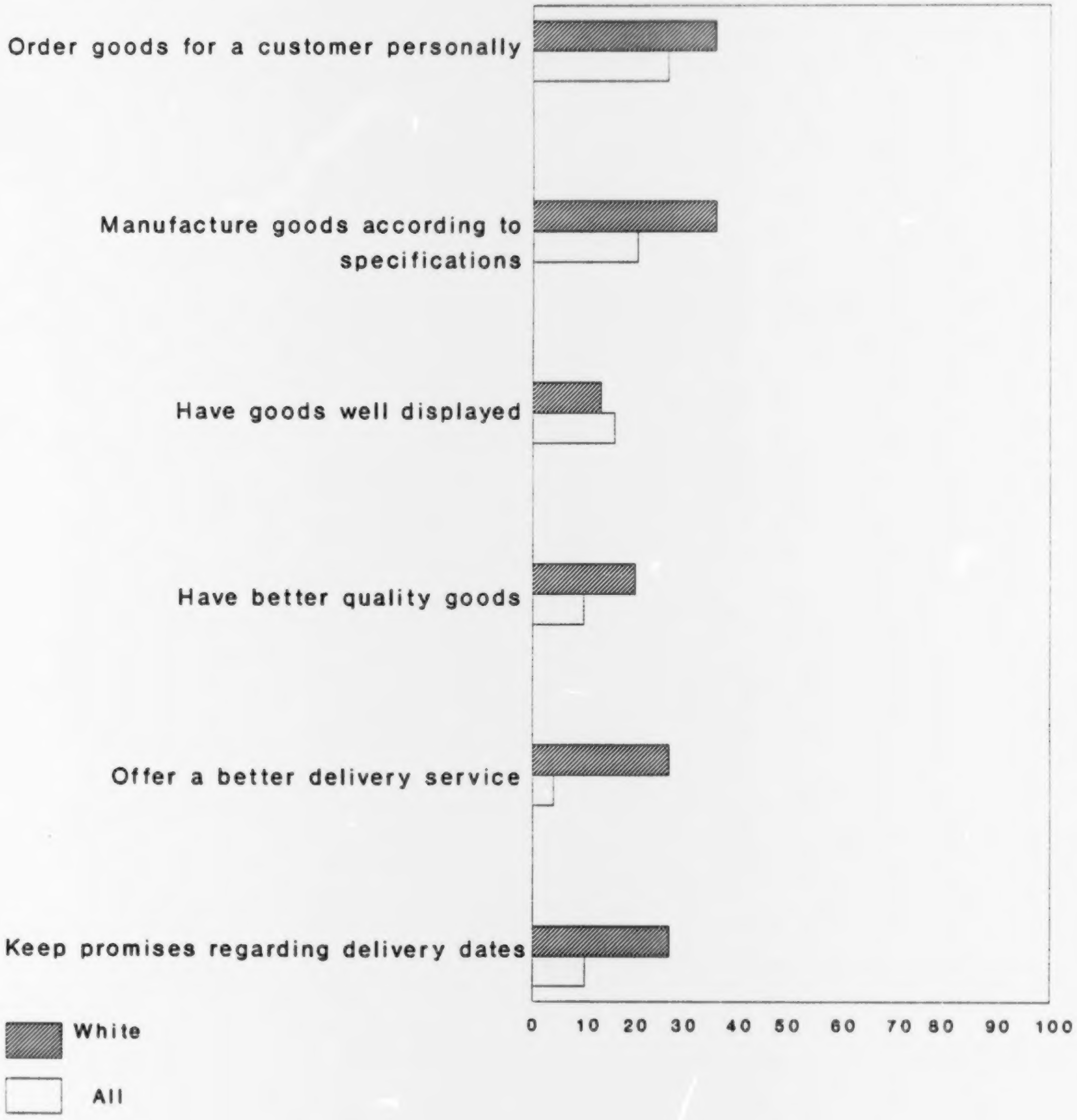


FIGURE 8.1 (Continued)

PERCENTAGE OF RESPONDENTS REPRESENTING BUSINESS ASSOCIATIONS WHO CHOSE INFORMAL SECTOR BUSINESSES ACCORDING TO THE POPULATION GROUP OF THE MAJORITY OF THEIR CLIENTS OR MEMBERS



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CHAPTER 9

9. MUNICIPAL OFFICIALS AND THEIR VIEWS ON INFORMAL BUSINESSES

9.1 INTRODUCTION

In South Africa at the present time, existing legislation which directly affects the viability of informal businesses is being reviewed. The introduction of the *Temporary Removal of Restrictions on Economic Activities Act of 1986* and its amendments has meant that certain restrictions which may have hindered the functioning of the informal sector in the past have already been lifted. However, even further changes to existing legislation are envisaged at central government level.

At a local level, however, each local authority or municipality has reacted differently to these changes taking place at central government level. A wide variety of provincial ordinances, local by-laws, regulations and rules influence the way in which the informal sector can function in different parts of the country. In certain municipalities, local measures to restrict the functioning of the informal sector are being lifted. However, in other municipalities, there is a resistance to change.

In a recent study by Hart and Rogerson (1989; see also Rogerson and Hart 1989), the changes taking place in policies and practices in relation to street trading and hawking in the central business districts of a number of smaller towns and cities and larger metropolitan areas, were examined. Some of these central business districts of certain towns, namely George, King William's Town, Nelspruit and Newcastle and cities, namely Johannesburg, Durban, Port Elizabeth and Cape Town included in the above study, were also part of the geographical districts covered in this study.

Hart and Rogerson found that since 1987 some authorities had lifted some of the restrictions, but others had not. For example the King William's Town local authorities and those in Nelspruit had introduced certain measures to accommodate hawkers in their central business districts. However, in George and Newcastle, negative attitudes and restrictive practices still prevailed. In the metropolitan central business districts, certain restrictions had been lifted in Johannesburg, Durban and Cape Town, but in Port Elizabeth relatively few restrictions had been lifted. These authors concluded that there are marked geographical variations regarding the reform of local policies and practices in relation to hawkers. As far as the smaller towns and cities are concerned, the general conclusion reached was that conservative attitudes prevail and few attempts have been made to open up hawking in the central business districts. In the larger centres, however, prospects were more hopeful.

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It is not only the policies towards informal businesses, but also the way in which these policies are carried out that influence the viability of the informal sector. The contacts that informal business owners have with people in positions of authority in the various municipalities, the situations that give rise to these contacts and the way in which they are handled can have a significant impact on the future development of the informal sector. The people who actually wield power which they can use against informal business owners are the municipal officials rather than the policy makers. The way in which municipal officials exercise their power can either promote or hinder an informal business operation. An educational versus a punitive approach can be taken. There is a need to determine how municipal officials interact with informal business owners when carrying out their duties.

Interviews were therefore held with municipal officials in four different departments in a number of municipalities to determine how these officials perceive the informal sector and how they deal with informal business owners when they infringe by-laws, rules and regulations.

9.2 AIMS OF THE STUDY SPECIFICALLY APPLIED TO MUNICIPAL OFFICIALS

This part of the study therefore aimed

- to give a biographical description of a group of municipal officials that participated in this study.
- to explore their perceptions of the informal sector.
- to examine the way in which they handle infringements of by-laws, rules and regulations.
- to examine their approach towards playing an educational role in relation to the informal sector.
- to use this information to determine the way in which municipal officials can be incorporated into a training strategy for the development of the informal sector.

9.3 BIOGRAPHICAL DESCRIPTION OF MUNICIPAL OFFICIALS

Interviews were held with municipal officials in the 16 different geographical districts in which this study took place (Table 9.1). Contact was first made with the town clerk or a person in an equivalent post in all the municipalities in these districts. Different municipalities had to be contacted within the same geographical district. For example, in the Johannesburg municipal district, the white, Indian and coloured areas are administered by the Johannesburg city council, while Soweto and other black areas have their own local authorities. Each of these municipalities had to be contacted. Permission was obtained to interview officials in the health, traffic, licencing and town planning departments. The times for the interviews and the actual people to be interviewed were arranged between the heads of each department and the fieldworker. Contact with informal business owners as part of their duties was an important selection criterion.

These municipal officials were drawn from all population groups, but there were more white officials (49 %) than black (35 %), coloured (5 %) or Indian (12 %) ones. Altogether 111 interviews were conducted with municipal officials.

Overall, the white municipal officials tended to be older than the others since 80 % were aged 36 years or older (Table 9.2a), while the black and coloured officials tended to be relatively young since 59 % of blacks and 60 % of coloureds were aged 35 years or younger. As we shall see, age was taken into account in the regression analyses to determine which variables influenced the officials' perceptions of the informal sector.

Regarding the departments in which they worked, more officials were obtained from the health (34 %) and traffic (29 %) departments than from the licencing (16 %) and town planning (21 %) departments (Table 9.2b). The occupations of these officials could be divided into the same categories as the departments for which they worked, namely health (including health inspection and nursing), traffic control, licencing and town planning (including engineering).

Only 14 of the respondents were females, most of whom were working in the health or town planning departments. The municipal officials were a relatively highly educated group. Almost all (89 %) had matriculated and 95 % had received some training or tertiary education in addition to schooling. This training had been received in fields such as nursing, public health and health inspection (42 %), traffic control and related fields (25 %), town planning, draughtsmanship, engineering and related fields (22 %), public administration and law (5 %) (Table 9.2c). These relatively highly educated and skilled people, who formed the sample of municipal officials, were required, as part of their duties, to enforce by-laws and regulations that affected informal business owners, whom, as we have seen consisted at least in part, of poorly educated and unskilled people, older people and disabled ones who would be unable to find work in other formal sectors of the economy.

9.4 PERCEPTIONS OF THE INFORMAL SECTOR

It is important to examine how these municipal officials, who came from different backgrounds to informal business owners, perceived the informal sector. These perceptions could affect the way in which they dealt with people in the informal sector in their official capacity.

The officials were consequently asked to indicate how they would describe the informal sector. Then they were asked to rate a typical informal business owner in terms of 10 sets of opposing adjectives, as already discussed in the chapter on financiers (Chapter 7) and on representatives of business associations (Chapter 8).

3.3

Finally, after being given the description of informal businesses, as it was used in this study (Chapter 1), they were asked to rate the informal sector in terms of its contribution to alleviating unemployment, improving standards of living, helping the economy to grow, helping unskilled people to survive and other contributions on a five point scale where 1 = not at all and 5 = very much. The customers (Chapter 4) and the owners of formal businesses (Chapter 5) answered similar questions.

The results regarding each of these three different ways of assessing the respondent's perceptions of the informal sector are discussed below.

9.4.1 Describing the informal sector

When asked to describe the informal sector (Table 9.3) in common with the financiers, the representatives of business associations and the owners of formal businesses, municipal officials tended to stress their unlicenced or unregistered nature (31 %). The black respondents, in particular (51 %) were concerned with this aspect of informal businesses. The smallness of scale of these businesses was also a common concern (30 %), a concern which was also shared by business association representatives and financiers. The site from which the business operated was also relatively frequently mentioned (23 %). This concern with business premises of informal business owners was also mentioned relatively frequently by other groups.

Thus, from the point of view of all the different groups of respondents, the illegal status of informal businesses, their smallness of scale and the sites from which they operate are their most distinctive features. It therefore seems as if a common framework exists in terms of which the concept "*informal business*" is understood by the various people in the community and in the wider society in South Africa at present. The municipal officials as the enforcers of legislation at local level are in tune with the other people interacting with this sector, in terms of their perceptions of this sector.

9.4.2 Ratings of the informal business owners

When asked to rate the informal business owners in terms of 10 pairs of adjectives (Table 9.4a), the municipal officials gave similar ratings to those given by both financiers and representatives of business associations. Informal business owners were seen as being unskilled ($\overline{X}$ = 2,3) and poor ($\overline{X}$ = 2,3), but as being relatively competent ($\overline{X}$ = 3,6) and ambitious ($\overline{X}$ = 3,7). Again members of the community and the wider society share perceptions with the local law enforcement agents, regarding the type of people who constitute the informal sector.

9.4.3 Ratings regarding contribution of the informal sector towards improving socio-economic conditions

In general, the responses given by municipal officials regarding the role that the informal sector can play in improving socio-economic conditions was relatively positive. The informal sector was seen as playing an important role in helping to enhance the economic development of underprivileged people (Table 9.4b). The ratings were similar to those given by formal business owners (Chapter 5) and customers (Chapter 4). It therefore seems as if various people interacting with or competing with informal businesses are aware of the important contribution that this sector can make to solving some of the critical problems of the country if it can grow and develop.

9.4.4 Variables influencing these perceptions

Two factor analyses were done to indicate which adjective ratings and which ratings regarding the influences of the informal sector on improving socio-economic conditions cluster together.

Regarding the adjectives describing the informal sector, three factors were found (Table 9.5a), namely motivation of informal business owners, social standing of these owners and their biographical characteristics. All the items concerning improving socio-economic conditions grouped together to form a single factor (Table 9.5b).

Four regression analyses (Table 9.6) indicated that different biographical variables influenced the respondents perceptions of informal business owners and the contribution that this sector makes to improving socio-economic conditions.

Only one variable, namely age, had an influence on perceptions regarding the motivation of informal business owners.

- The younger the respondent, the more likely he or she was to think that informal business owners are highly motivated to succeed; the older the municipal official, the less likely he or she was to think that informal business owners are motivated to succeed.

As far as social standing in the informal sector is concerned three variables, namely geographical district, population group which the municipality serves and field of training of the municipal official influenced ratings on this factor.

- In Port Elizabeth, Witbank, Queenstown and De Aar the municipal officials were likely to see informal business owners as being relatively skilled, advanced and financially viable, while in Harrismith, officials were more likely to see informal business owners as being unskilled, disadvantaged and poor, compared to other districts.

- Those serving the white population groups were more likely to see informal business owners as being unskilled, poor and disadvantaged.
- Those who had studied in the fields of public administration, security and law were more likely to see informal business owners as being disadvantaged, unskilled and poor, while those officials who had studied traffic control were more likely to see them as advantaged.

As far as biographical characteristics of informal business owners are concerned, not only age, but also the municipal department in which the official worked, population group of the official and population group of the informal business owners with whom he or she had contact, had an influence on the respondent's ratings.

- In Upington and Ladysmith, municipal officials were more likely to rate informal business owners as being more educated, older and more unconventional. In Harrismith, however, they were seen as being younger, less educated and conventional.
- In the traffic departments, the officers saw informal business owners as being older, more educated and unconventional, while licence officials perceived them as being younger, less well educated and conventional.
- The black municipal officials were more likely to view informal business owners as being older, better educated and unconventional.
- Those who served the Asian community were also more likely to see informal business owners as older, better educated and unconventional.

The extent to which the informal sector was seen as helping to improve socio-economic conditions was influenced by the age of the respondents, the geographical district from which they came, the department for which they worked and their field of study.

- The older the respondent the less likely he or she was to think that the informal sector helped to improve socio-economic conditions.
- In two metropolitan areas, namely Cape Town and Port Elizabeth, the officials were more likely to think that the informal sector contributed to improving socio-economic conditions, while in one small town, namely De Aar, the opposite tendency was found.
- Those officials in traffic departments were less likely to perceive the informal sector as contributing to improving socio-economic conditions.
- Those who had studied traffic control were also less likely to view the informal sector as helping to improve socio-economic conditions.

From these findings, the conclusion can be drawn that the officials' backgrounds, including the areas in which they lived, the type of work they did and the type of contact they had with informal business owners influenced their perceptions of the informal sector generally and the informal business owner in particular. These perceptions in turn could have influenced the way in which they dealt with the informal sector when enforcing the by-laws, rules and regulations.

9.5 ACTIONS TAKEN WITH REGARD TO INFRINGEMENTS OF BY-LAWS, RULES AND REGULATIONS

The researchers' next task was to determine the type of infringements that officials deal with that could directly affect their dealing with the informal sector. This task was approached in the following manner:

- The relevant by-laws, rules and regulations were studied, as they are formulated for the Johannesburg and Pretoria areas.
- Guidelines that had been drawn up for small business owners and for municipal officials in these two areas were also studied.
- On the basis of these studies and on the basis of interviews held with officials in the Pretoria municipality, certain areas in which infringements were more likely to occur when informal business owners run their businesses, were identified. These areas were:
    - Dealing with foodstuffs, for example storage, preparation and handling of perishable foods.
    - Environmental protection, for example air or water pollution, lack of adequate sanitation facilities, dirty or unhygienic premises.
    - Causing an obstruction, for example obstructing traffic, obstructing pedestrians, failure of a hawker to move on after a specified time and operating in a prohibited area.
    - Advertising, for example putting up signs without permission, handing out pamphlets at street corners without permission and touting for customers.
    - Conducting a business without the necessary licence, for example selling foodstuffs without a licence.
    - Zoning regulations, for example running a panel beating shop from a private residence.
    - Inadequate structures and premises, for example temporary structures, premises for butchers or hairdressers that do not meet requirements, unsafe storage of building materials, chemicals and inflammable liquids.

Having identified these areas, the researchers then formulated the questions to be asked regarding infringements and how they are handled. The same questions were asked for all these areas of possible infringement of by-laws and regulations namely:

- Whether or not the particular municipal official would be required to take action in each area if he or she found out that someone was infringing the particular set of by-laws.
- If yes, to describe the three main actions that would be taken.
- Where applicable, whether or not these actions would differ for business owners in the formal and in the informal sectors.

3.7

- If there were differences in actions taken between the two sectors, how they would differ.
- Whether or not the officials could use their discretion when carrying out these actions.
- If they had a choice, whether or not they would prefer to act in a different way.

The responses to each of these questions are discussed below.

9.5.1 Whether or not the official would take action

The research findings show (Table 9.7) that:

- Health officials are highly likely to take action regarding infringements in relation to
    - dealing with foodstuffs (92 %).
    - dealing with environmental protection (95 %).
    - conducting a business without the required licence (62 %).
    - regulations dealing with structures and premises (62 %).
- Traffic officials are highly likely to take actions regarding infringements in relation to
    - causing an obstruction (100 %).
    - illegal advertising (63 %).
    - conducting a business without a licence (52 %).
- Licencing officials are highly likely to take action regarding infringements in relation to
    - conducting a business without a licence (94 %).
- Town planners are likely to take action regarding infringements in relation to
    - dealing with environmental protection (73 %).
    - causing an obstruction (55 %).
    - zoning regulations (86 %).
    - regulations dealing with structures and premises (52 %).

9.5.2 Actions that are taken

The respondents indicated that similar steps are taken for all infringements. These include

- inspections and investigations
- verbal warnings
- written warnings
- training, advice and assistance
- confiscation of goods, pamphlets etc.
- preventing the person from continuing the activity by, for example, closing the premises.
- instituting legal proceedings (including arrests, summonses and fines).

As a first step it was more common for officials to undertake inspections and investigations, to give verbal warnings or to confiscate goods, pamphlets etc. Training advice and assistance was also more commonly given as a first step.

The most common second steps that were taken were those of follow up inspections and written warnings. Preventing the person from continuing the activity was also usually taken as a second step.

The third step was generally to institute legal proceedings against the person.

In view of the nature of informal businesses, some of these steps such as confiscating goods and preventing the person from carrying on with an activity may actively hinder the development of the informal sector. In Chapter 3, the reader was made aware of the numerous problems that the informal business owner faced in obtaining the goods that he or she needed and in finding suitable premises or a site. Harsh actions as a first or second step can therefore have detrimental effects on the functioning of the informal business. De Soto (1989) also pointed out how severely such actions could affect an informal business.

From a training perspective, the municipal officials need to be made aware of just how harmful their actions could be, and how other alternatives should be tried before goods are confiscated or premises shut down.

9.5.3 Whether or not actions differ in the formal and the informal sectors

Regarding whether or not these actions would differ when taken against formal or informal business owners, the majority of respondents said that these actions would not differ (Table 9.8). However, only five of the seven areas in which infringements could occur, could apply to both sectors. In general those infringements regarding zoning regulations and running a business without a licence apply only to informal businesses.

9.5.4 Ways in which actions would differ

Among those respondents who said that their actions would differ when dealing with formal or with informal business owners, the following differences were mentioned.

- More emphasis would be placed on training business owners in the informal sector.
- In view of the deregulation that is occurring, fewer regulations apply to the informal sector.
- A special section in the municipality deals with the informal sector.
- The informal and formal sector business owners infringe different by-laws.
- The formal sector business owner is more able to pay fines.

- You cannot confiscate the goods of a formal business owner.

9.5.5 Using discretion when taking actions

When asked whether or not they could use their discretion regarding what action to take (Table 9.9), the majority of respondents said they could do so, and a relatively large group said that they could sometimes do so. Nevertheless, in some cases, for example illegal advertising (41 %), infringement of zoning regulations (38 %) and infringements of regulations regarding structures and premises (36 %), a large group of respondents felt that they could not use their discretion. The steps which they had to take were fixed and they were required to take them.

The following reasons were given by the municipal officials who said they could use their discretion for believing they could do so.

- Seriousness of violations differ.
- The risks entailed (for example health risks) differ.
- The circumstances of the offender are taken into account.
- Informal business owners need help and advice.
- Offenders should be treated with dignity.

Among those officials who said that they could not use their discretion, the following reasons were given for feeling that they could not do so.

- Superiors overrule decisions taken by officials.
- Regulations, if they are to be effective, must be applicable to everyone.
- It is important to maintain standards as set out in the by-laws.
- Laws cannot be broken.

Among those respondents who indicated that they could use their discretion, the officials said that discretion could be used in the following ways.

- Deciding on whether or not to give a verbal or a written warning.
- Deciding on whether or not to give advice and training.
- Deciding on the seriousness of the offence.
- Deciding on whether or not to institute legal proceedings.
- Deciding on whether or not to confiscate goods.

Some respondents indicated that they preferred not to institute legal proceedings, but rather, to take other measures such as confiscating goods or preventing the person from carrying on the activity because the courts caution and discharge offenders rather than penalise them. This means that they can continue with the activity without really being made aware of the consequences.

From these research findings, it is apparent that attitudes not only to the informal sector but also to favouring punishment or favouring training or education as means of dealing with infringements influence the way in which municipal officials deal with informal business owners. The wide ranging approaches indicate that changes can be introduced to encourage municipal officials to educate, train and advise offenders, rather than to penalise them. Obviously, in some cases where the offense is serious, firmer action needs to be taken, but all other channels of dealing with offenders should be explored before punitive action is taken. Officials need training in handling infringements in an educational, rather than in a punitive manner.

9.5.6 Preferences regarding different ways to act

In view of the harshness of some of the punitive ways of dealing with offenders breaking certain by-laws and regulations, the researchers thought that it would be important to explore whether or not officials would prefer to act in different ways when dealing with infringements.

When asked whether or not they would prefer to act in a different way when dealing with infringements, most respondents indicated that they would not like to act differently (Table 9.10). In other words, most officials are satisfied with the actions that they take, taking into account the discretion they can use regarding whether or not to take certain steps.

Among the few who would prefer to act differently, the following suggestions were made.
On the one hand suggestions were made for more leniency.

- There is a need for special laws for dealing with the informal sector.
- The emphasis for this sector should be placed on education and training, rather than on punishment.
- More sites and premises should be made available for informal business owners.
- Infringements should be treated more leniently, taking the individual's circumstances into account.

On the other hand, suggestions were made for more strictness.

- Officials should have more power to confiscate licences.
- Officials should be able to prevent a business from operating until the infringements have been rectified.
- Admission of guilt fines without court appearances should be allowed, to prevent warnings and cautions being issued by the courts with no further steps being taken.

From these research findings, it seems as if a code of conduct is needed so that officials always deal with informal business owners with dignity, courtesy and politeness, irrespective of the nature of the offence. Those who have a more negative image of the informal sector and who wish to deal more harshly with them would then be required to meet the conditions set out in a code of conduct, before they could do so.

It is encouraging to note however, how many of the respondents favoured education, advice and training as a method of dealing with offences.

9.6 ROLE OF OFFICIALS IN EDUCATING AND TRAINING INFORMAL BUSINESS OWNERS

The final questions put to the respondents concerned the extent to which they thought that their role should be broadened to enable them to give more education to informal business owners regarding ways to avoid infringements of by-laws and regulations. Each area of possible infringement was rated on a five point scale, in terms of a broadened educational role, where 1 = not at all and 5 = very much.

The findings show (Figure 9.1) the following.

- Most respondents favoured an educational role for officials so that they could teach people to handle foodstuffs more hygienically.
- There was less support for an educational role for officials regarding teaching people about environmental protection, although most respondents did support this role, at least to some extent.
- Most respondents, at least to some extent, supported an educational role for officials in helping people to prevent obstructions.
- However, relatively few people, except for those in the town planning department, wanted to have a role in educating people regarding infringements of advertising by-laws.
- An educational role regarding helping people to fulfil licencing requirements was generally favoured.
- Most respondents favoured giving people an education regarding zoning requirements.
- The same preference was expressed regarding education in terms of proper use of structures and premises.

The positive, negative and neutral reasons given for these ratings (Table 9.11) indicate that overall, municipal officials regarded educating people to prevent offences as an important role for them to play. In this way they can help to overcome ignorance, serve the public, prevent infringements and help the informal sector to develop.

The need to train officials to enable them to play an educational role is indeed recognised. But the need to expand the role of the municipal official to include educating people is an important one. To do this the image of municipal officials, at least in some municipalities, will have to change from one of being punitive to one of being able to prevent infringements of by-laws and regulations. Prevention, rather than punishment of offenders, should be the aim of municipal officials. Education, advice and training is an effective way of preventing infringements from occurring.

9.7 POSSIBLE TRAINING AND EDUCATION IMPLICATIONS

The main training implications here concern encouraging the development of the municipal official as a trainer.

- The official can educate and train people to enable them to prevent infringements of by-laws, rather than to punish offenders once by-laws have been broken.

- A training strategy should therefore examine the existing training that is given to municipal officials in this regard and introduce changes if necessary.

- A code of conduct is needed to help to improve the image of municipal officials, so that they can be accepted as both trainers, and when necessary, as law enforcers.

- Training in this context includes general education as well as specific training relevant to particular offences. For example, general education programmes can be developed to inform informal business owners about health standards and the reasons why these standards are necessary. Specific training can be given when these general principles are made applicable to the actual business of the individual informal business owner.

- Counselling and advice need to be seen as part of a training process.

- Before punishments are meted out, whenever possible, attempts should first be made to educate and train people.

- Municipal officials, through their contacts with informal business owners, and through the help and advice they can give this sector, can play a very significant role in its future development. Together with changes in legislation, changes in the approach of officials to the informal sector can be encouraged as part of a training strategy, so that they can play a positive development role.

- Informal business owners, in turn, need training regarding running businesses within the framework of the by-laws and regulations. Suggestions on how, within their limited means, it is possible to do so, need to be made to them.

TABLE 9.1

GEOGRAPHICAL AREAS IN WHICH MUNICIPAL OFFICIALS WORKED

		N	%
Johannesburg	: White	2	1,8
	: Black established	7	6,3
	: Coloured	2	1,8
	: Indian	2	1,8
Cape Town	: White	5	4,5
	: Black established	7	6,3
	: Coloured	2	1,8
	: Indian	1	0,9
Port Elizabeth	: White	3	2,7
	: Black established	10	9,0
	: Indian	1	0,9
Durban	: White	3	2,7
	: Black established	6	5,4
	: Indian	6	5,4
Bloemfontein	: White	5	4,5
Newcastle	: White	5	4,5
	: Indian	1	0,9
Nelspruit	: White	6	5,4
George	: White	6	5,4
Witbank	: White	2	1,8
	: Black established	4	3,6
Pietersburg	: Black established	4	3,6
Queenstown	: White	5	4,5
Harrismith	: White	2	1,8
	: Black established	1	0,9
De Aar	: White	2	1,8
	: Black established	2	1,8
King William's Town	: White	3	3,6
Upington	: White	4	0,9
	: Coloured	1	2,7
Ladysmith	: Indian	1	0,9
TOTAL		111	100

TABLE 9.2

BIOGRAPHICAL DESCRIPTION OF MUNICIPAL OFFICIALS ACCORDING TO THEIR POPULATION GROUP

Biographical information	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Age										
30 years or younger	12	30,8	6	11,1	2	40,0	3	23,1	23	20,7
31 - 35 years	11	28,2	5	9,3	1	20,0	2	15,4	19	17,1
36 - 40 years	8	20,5	9	16,7	2	40,0	2	15,4	21	18,9
41 - 45 years	1	2,6	15	27,8			2	15,4	18	16,2
46 years or older	7	18,0	19	35,2			4	30,8	30	27,0
TOTAL	39	100	54	100	5	100	13	100	111	100
(b) Department where official worked										
Health	16	43,2	15	27,8	3	60,0	3	23,1	37	33,9
Traffic	14	37,8	14	25,9	1	20,0	3	23,1	32	29,4
Licencing	2	5,4	12	22,2	1	20,0	2	15,4	17	15,6
Town planning	5	13,5	13	24,1			5	38,5	23	21,1
TOTAL	37	100	54	100	5	100	13	100	109	100
(c) Field in which official had received training										
Public administration, security and law	1	2,6	4	7,4			1	7,7	6	5,4
Town planning and related	5	12,8	13	24,1	1	20,0	5	38,5	24	21,6
Traffic control and related	12	30,8	11	20,4	1	20,0	4	30,8	28	25,2
Nursing, public health, health inspection	20	51,3	22	40,7	2	40,0	3	23,1	47	42,3
No training	1	2,6	4	7,4	1	20,0			6	5,4
TOTAL	39	100	54	100	5	100	13	100	111	100

3 5

TABLE 9.3

THE WAY IN WHICH MUNICIPAL OFFICIALS DESCRIBED THE INFORMAL SECTOR ACCORDING TO POPULATION GROUP OF THE RESPONDENT

Description of informal sector	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
Unlicenced or unregistered business	20	51,3	11	20,4			3	23,1	34	30,6
Being run from a residence or street site	4	10,3	16	29,6	1	20,0	4	30,8	25	22,5
Very small businesses	11	28,2	18	33,3	2	40,0	2	15,4	33	29,7
Businesses run on very little capital			1	1,9			3	23,1	4	3,6
Businesses creating employment	2	5,1	3	5,6	1	20,0	1	7,7	7	6,3
Businesses offering a community service	1	2,6	3	5,6	1	20,0			5	4,5
Business owner is underprivileged	1	2,6	2	3,7					3	2,7
TOTAL	39	100	54	100	5	100	13	100	111	100

TABLE 9.4

RATINGS OF THE INFORMAL SECTOR

(a) Ratings of informal business owners

Perceptions	Population group									
	Black		White		Coloured		Indian		TOTAL	
	X̄	sd	X̄	sd	X̄	sd	X̄	sd	X̄	sd
Disadvantaged - advantaged	3,3	1,5	2,7	1,3	2,8	1,3	3,5	1,3	3,0	1,4
Unskilled - skilled	2,5	0,9	2,0	1,1	1,6	0,5	2,9	1,1	2,3	1,0
Poor - rich	2,4	0,8	2,1	1,0	3,0	0,7	2,5	0,8	2,3	0,9
Illiterate - literate	3,0	0,8	2,9	1,1	2,2	0,8	2,8	1,3	2,9	1,0
Young - old	3,0	0,8	3,0	0,7	2,8	0,4	2,6	1,0	2,9	0,8
Lacking ambition - ambitious	3,7	1,2	3,6	1,2	4,0	0,7	4,2	0,7	3,7	1,1
Conforming - unconventional	3,1	1,1	3,3	1,0	2,8	0,8	3,2	1,0	3,2	1,0
Unreliable - reliable	3,3	1,2	2,9	1,1	3,8	1,1	3,4	1,0	3,1	1,2
Static - innovative	3,4	1,2	3,2	1,0	3,0	1,2	3,2	1,1	3,3	1,1
Incompetent - competent	3,5	1,3	3,5	0,8	4,4	0,5	3,9	1,1	3,6	1,1

X̄ = mean; sd = standard deviation

(b) Ratings regarding contribution of the informal sector towards improving socio-economic conditions

Perceptions	Population group									
	Black		White		Coloured		Indian		TOTAL	
	X̄	sd	X̄	sd	X̄	sd	X̄	sd	X̄	sd
Alleviation of unemployment	3,8	1,4	3,7	1,1	4,0	1,0	3,8	1,5	3,8	1,2
Improving people's standard of living	3,2	1,4	3,5	1,2	4,0	1,0	3,8	1,3	3,5	1,3
The growth of South Africa's economy	3,2	1,4	3,4	1,3	4,0	0,7	3,5	1,3	3,4	1,3
The survival of unskilled people	3,5	1,5	3,8	1,2	4,2	0,8	3,9	1,3	3,7	1,3
The development of business skills in underprivileged communities	3,5	1,4	3,4	1,1	4,0	0,7	3,3	1,5	3,5	1,3
The provision of needed services at affordable prices	3,7	1,5	3,4	1,2	4,2	0,4	4,0	1,0	3,6	1,3

X̄ = mean sd = standard deviation

TABLE 9.5

FACTOR ANALYSES: MUNICIPAL OFFICIALS' PERCEPTIONS OF THE INFORMAL SECTOR

(a) Ratings of informal business owners

	Factor 1	Factor 2	Factor 3
	Motivation of informal business owners	Social standing of informal business owners	Biographical characteristics of informal business owners
Lacking ambition - ambitious	0,63		
Unreliable - reliable	0,60		
Static - innovative	0,47		
Unskilled - skilled		0,87	
Disadvantaged - advantaged		0,41	
Poor - rich		0,45	
Illiterate - literate			0,62
Young - old			0,37
Conforming - unconventional			0,35

(b) Ratings of contribution of the informal sector to improving socio-economic conditions

	Factor 1
	Improving socio-economic conditions
The development of business skills in underprivileged communities	0,81
Improvement of people's standard of living	0,78
Provision of needed goods and services at affordable prices	0,72
Alleviation of unemployment	0,65
The growth of South Africa's economy	0,63
The survival of unskilled people	0,54

TABLE 9.6

VARIABLES INFLUENCING MUNICIPAL OFFICIALS' PERCEPTIONS OF THE INFORMAL SECTOR

Variables		Motivation of informal business owner	Social standing of informal business owners	Biographical characteristics of business owners	Improving socio-economic conditions
Intercept		6,86***	3,80***	2,94***	17,53***
Age of official		-0,03**		0,28***	-0,17**
Extent of direct contact with informal business owners					
Geographical district	Johannesburg				
	Cape Town				2,96*
	Port Elizabeth		1,27***		4,05**
	Durban				
	Bloemfontein				
	Newcastle				
	Nelspruit				
	George				
	Witbank		0,87*		
	Pietersburg				
	Queenstown		1,29**		
	Harrismith		-1,53**	-0,73**	
	De Aar		1,21*		-11,00***
	King William's Town				
	Upington			0,63*	
	Ladysmith			1,11*	
Population group which municipality serves					
	White		-1,06***		
	Black				
	Coloured				
	Indian				
Department where official works					
	Health				
	Traffic			0,27**	-2,93*
	Licence			-0,28**	
	Town planning				
Population group of the respondent					
	Asian				
	Black			0,25*	
	Coloured				
	White				
Field of training of respondent					
	None				
	Public administration, Security & Law		-1,05**		
	Town planning				
	Traffic control		0,90***		-3,76**
	Health inspection				
Population group of informal owners with whom respondent has contact					
	Asian			0,50*	
	Black				
	Coloured				
	White				
	All				

*** p < 0,01

** p < 0,05

* p < 0,10

TABLE 9.7

WHETHER OR NOT THE MUNICIPAL OFFICIALS WOULD BE REQUIRED TO TAKE ACTION IN RELATION TO INFRINGEMENTS OF MUNICIPAL BY-LAWS ACCORDING TO THE DEPARTMENT IN WHICH THEY WORK

Whether or not official takes action for by-law infringements regarding		Municipal department									
		Health		Traffic		Licence		Town planning		TOTAL	
		N	%	N	%	N	%	N	%	N	%
(a) Dealing with foodstuffs	Yes	34	91,9	14	43,8	7	41,2	10	43,5	65	59,6
	No	3	8,1	8	25,0	3	17,7	3	13,0	17	15,6
	Not applicable			10	31,3	7	41,2	10	43,5	27	24,8
TOTAL		37	100	32	100	17	100	23	100	109	100
(b) Dealing with environmental protection (e.g. water pollution)	Yes	35	94,6	11	34,4	5	29,4	16	72,7	67	62,0
	No	2	5,4	10	31,3	3	17,7	1	4,6	16	14,8
	Not applicable			11	34,4	9	52,9	5	22,7	25	23,2
TOTAL		37	100	32	100	17	100	22	100	108	100
(c) Causing an obstruction	Yes	16	43,2	32	100,0	6	35,3	12	54,5	66	61,1
	No	7	18,9			2	11,8	4	18,2	13	12,0
	Not applicable	14	37,8			9	52,9	6	27,3	29	26,9
TOTAL		37	100	32	100,0	17	100	22	100	108	100
(d) Illegal advertising	Yes	3	8,1	20	62,5	2	11,8	9	40,9	34	31,5
	No	15	40,5	6	18,8	4	23,5	8	36,4	33	30,6
	Not applicable	19	51,4	6	18,8	11	64,7	5	22,7	41	38,0
TOTAL		37	100	32	100	17	100	22	100	108	100
(e) Conducting business without the necessary licence	Yes	23	62,2	16	51,6	16	94,1	6	26,1	61	56,5
	No	5	13,5	7	22,6			7	30,4	19	17,6
	Not applicable	9	24,3	8	25,8	1	5,9	10	43,5	28	25,9
TOTAL		37	100	31	100	17	100	23	100	108	100
(f) Zoning regulations	Yes	14	37,8	11	34,4	4	23,5	19	86,4	48	44,4
	No	8	21,6	10	31,3	1	5,9	1	4,6	20	18,5
	Not applicable	15	40,5	11	34,4	12	70,6	2	9,1	40	37,0
TOTAL		37	100	32	100	17	100	22	100	108	100
(g) Regulations regarding structures on premises	Yes	23	62,2	11	35,5	4	23,5	12	52,2	50	46,3
	No	7	18,9	11	35,5	1	5,9	3	13,0	22	20,4
	Not applicable	7	18,9	9	29,0	12	70,6	8	34,8	36	33,3
TOTAL		37	100	31	100	17	100	23	100	108	100

TABLE 9.8

WHETHER OR NOT STEPS TAKEN TO DEAL WITH INFRINGEMENTS OF BY-LAWS WOULD DIFFER FOR BUSINESSES IN THE FORMAL AND THOSE IN THE INFORMAL SECTOR

Would steps differ for formal or informal businesses?		N	%
(a) Infringements of by-laws dealing with foodstuffs	Yes	23	35,9
	No	41	64,1
TOTAL		64	100
(b) Infringement of by-laws related to environmental protection	Yes	16	23,9
	No	51	76,1
TOTAL		67	100
(c) Causing an obstruction	Yes	11	16,9
	No	54	83,1
TOTAL		65	100
(d) Illegal advertising	Yes	4	11,8
	No	30	88,2
TOTAL		34	100
(e) Infringing of regulations regarding structures and premises	Yes	14	28,0
	No	36	72,0
TOTAL		50	100

TABLE 9.9

WHETHER OR NOT MUNICIPAL OFFICIALS FEEL THAT THEY CAN USE THEIR DISCRETION REGARDING HANDLING INFRINGEMENTS OF BY-LAWS AND REGULATIONS

Using discretion regarding		N	%
(a) Infringements of by-laws dealing with foodstuffs	Yes	44	68,8
	Sometimes	13	20,3
	No	7	10,9
TOTAL		64	100
(b) Infringements of by-laws related to environmental protection	Yes	40	60,6
	Sometimes	9	13,6
	No	17	25,8
TOTAL		66	100
(c) Causing an obstruction	Yes	35	58,3
	Sometimes	8	13,3
	No	17	28,3
TOTAL		60	100
(d) Illegal advertising	Yes	17	50,0
	Sometimes	3	8,8
	No	14	41,2
TOTAL		34	100
(e) Conducting business without a licence	Yes	34	58,6
	Sometimes	9	15,5
	No	15	25,9
TOTAL		58	100
(f) Infringement of zoning regulations	Yes	26	54,2
	Sometimes	4	8,3
	No	18	37,5
TOTAL		48	100
(g) Infringements of regulations regarding structures and premises	Yes	26	52,0
	Sometimes	6	12,0
	No	18	36,0
TOTAL		50	100

TABLE 9.10

WHETHER OR NOT THE MUNICIPAL OFFICIALS WOULD PREFER TO ACT IN A WAY WHICH DIFFERS FROM THE PRESCRIBED WAY WHEN DEALING WITH INFRINGEMENTS OF BY-LAWS AND REGULATIONS

Dealing differently with		N	%
(a) Infringements of by-laws dealing with foodstuffs	Yes	25	39,7
	No	38	60,3
TOTAL		63	100
(b) Infringements of by-laws related to environmental protection	Yes	20	30,3
	No	46	69,7
TOTAL		66	100
(c) Causing an obstruction	Yes	16	27,1
	No	43	72,9
TOTAL		59	100
(d) Illegal advertising	Yes	3	9,1
	No	30	90,9
TOTAL		33	100
(e) Conducting a business without a licence	Yes	10	16,9
	No	49	83,1
TOTAL		59	100
(f) Infringement of zoning regulations	Yes	9	18,8
	No	39	81,3
TOTAL		48	100
(g) Infringements of regulations regarding structures and premises	Yes	7	14,3
	No	42	85,7
TOTAL		49	100

TABLE 9.11

REASONS GIVEN BY MUNICIPAL OFFICIALS REGARDING WHY THEY THINK THEY SHOULD/SHOULD NOT PLAY AN EDUCATIONAL ROLE*

Reasons given	Population group									
	Black		White		Coloured		Indian		TOTAL	
	N	%	N	%	N	%	N	%	N	%
(a) Positive reasons										
Education is needed to deal with ignorance	47	28,7	78	33,1	5	20,8	8	15,7	138	29,1
Officials must help and serve the public	5	3,0	9	3,8			1	2,0	15	3,2
Education is necessary for prevention of infringements	80	48,9	70	29,7	8	33,3	28	54,9	186	39,1
The informal sector is important	1	0,6	3	1,3					4	0,8
Education can help the informal sector	4	2,4	2	0,8	1	4,2			7	1,5
Subtotal	137	83,6	162	68,7	14	58,3	37	72,6	350	73,7
(b) Neutral reasons										
It is the official's duty	11	6,7	15	6,4	8	33,3	5	9,8	39	8,2
Officials need training to be able to educate			10	4,2			1	2,0	11	2,3
There is a manpower shortage			4	1,7					4	0,8
Deregulation is necessary	2	1,2	2	0,8					4	0,8
Subtotal	13	7,9	31	13,1	8	33,3	6	11,8	58	12,2
(c) Negative reasons										
The requirements of the by-laws are general knowledge	1	0,6	4	1,7	1	4,2	1	2,0	7	1,5
Compliance with the requirements is everyone's responsibility	1	0,6	19	8,1					20	4,2
Control of the informal sector is important	7	4,3	15	6,4	1	4,2	2	3,9	25	5,3
Education is unneccessary	5	3,0	5	2,1			5	9,8	15	3,2
Subtotal	14	8,5	43	18,2	2	8,3	8	15,7	67	14,2
TOTAL	164	100	236	100	24	100	51	100	475	100

*Up to three reasons could be given by each respondent.

FIGURE 9.1

THE EXTENT TO WHICH MUNICIPAL OFFICIALS FELT THAT MORE EMPHASIS SHOULD BE PLACED ON EDUCATION ACCORDING TO THE DEPARTMENT IN WHICH THEY WORKED

(a) Dealing with foodstuffs

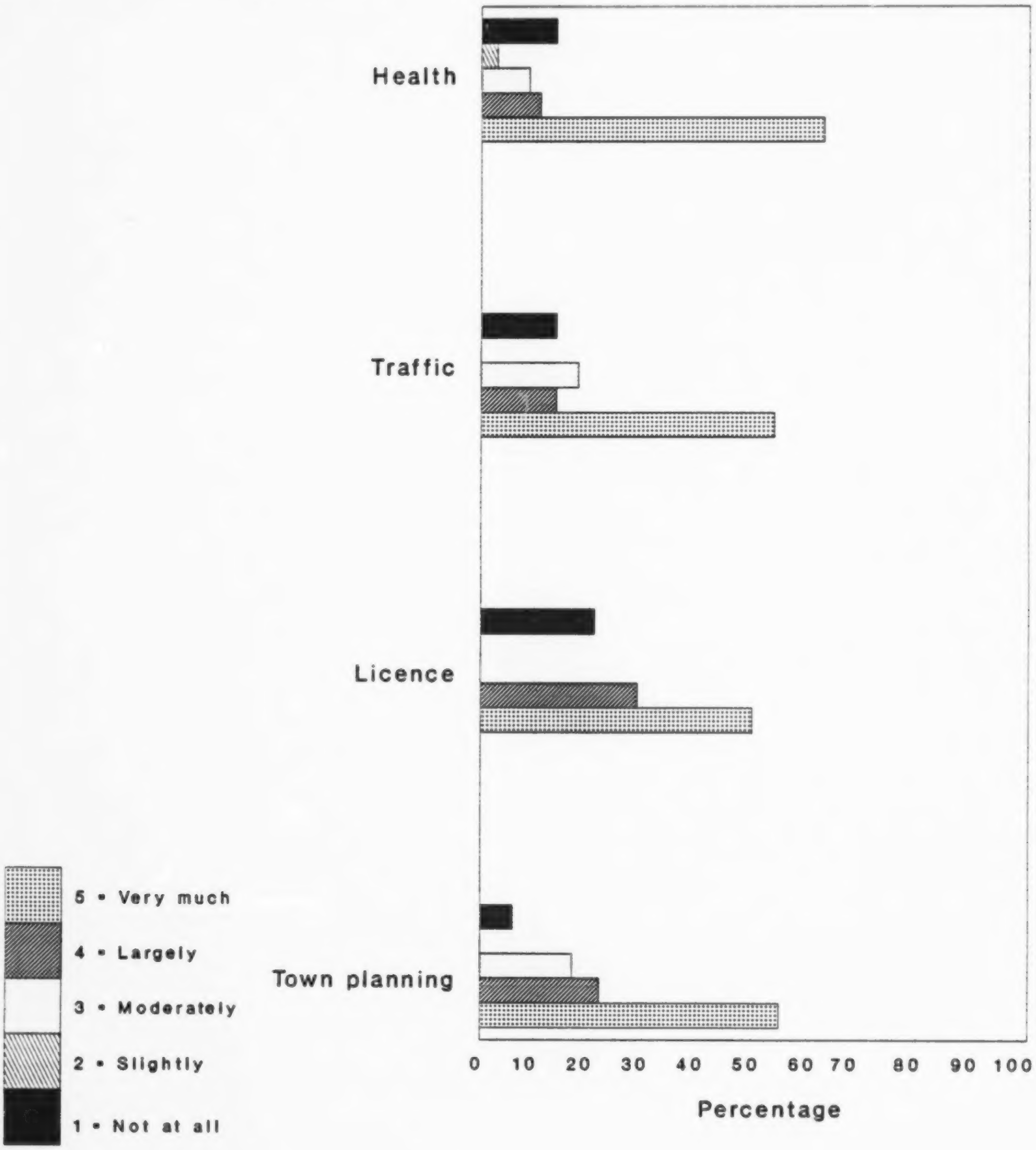


FIGURE 9.1 (Continued)
THE EXTENT TO WHICH MUNICIPAL OFFICIALS FELT THAT MORE EMPHASIS SHOULD BE PLACED ON EDUCATION ACCORDING TO THE DEPARTMENT IN WHICH THEY WORKED

(b) Environmental protection

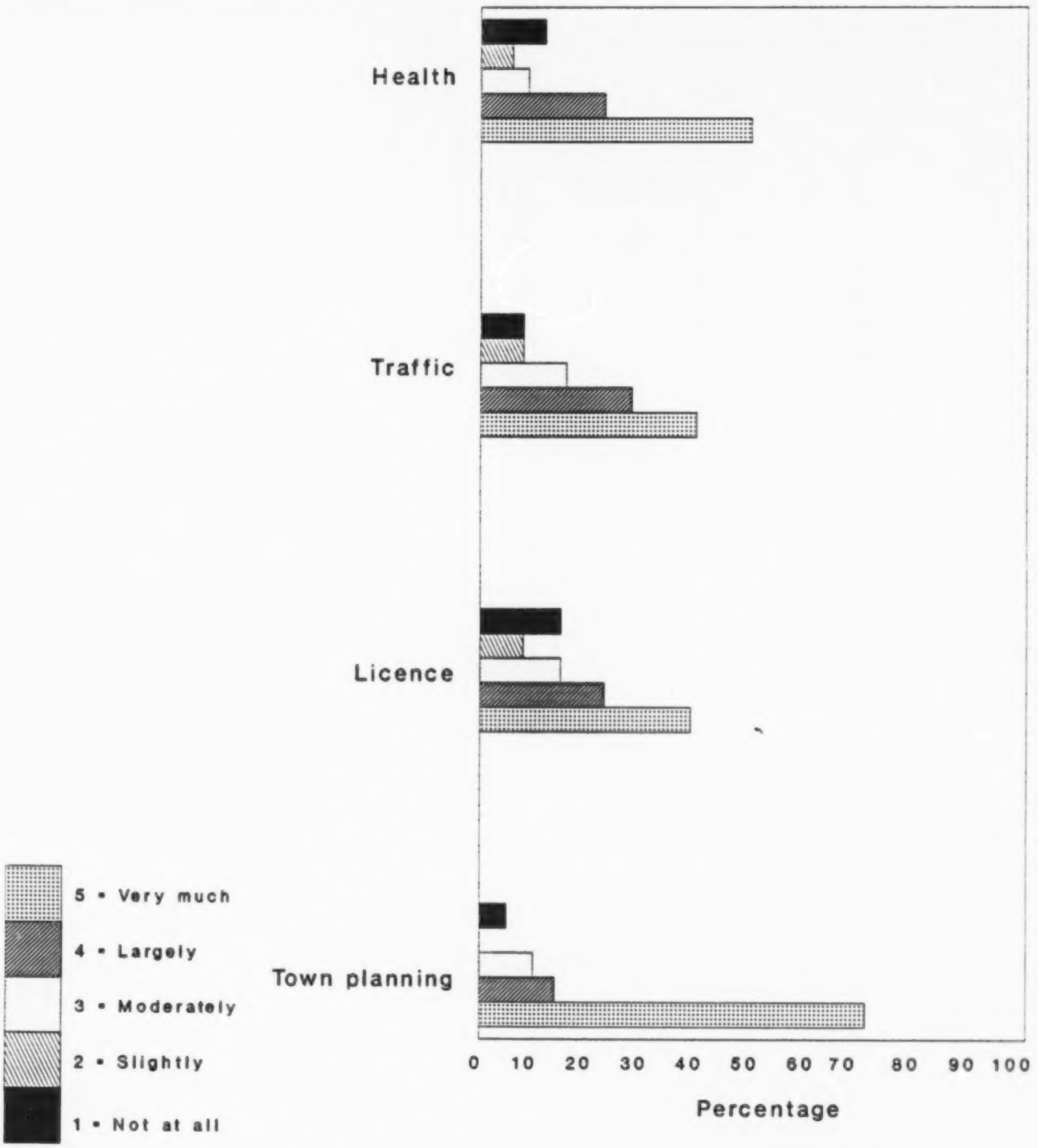


FIGURE 9.1 (Continued)
THE EXTENT TO WHICH MUNICIPAL OFFICIALS FELT THAT MORE EMPHASIS SHOULD BE PLACED ON EDUCATION ACCORDING TO THE DEPARTMENT IN WHICH THEY WORKED

(c) Preventing obstructions

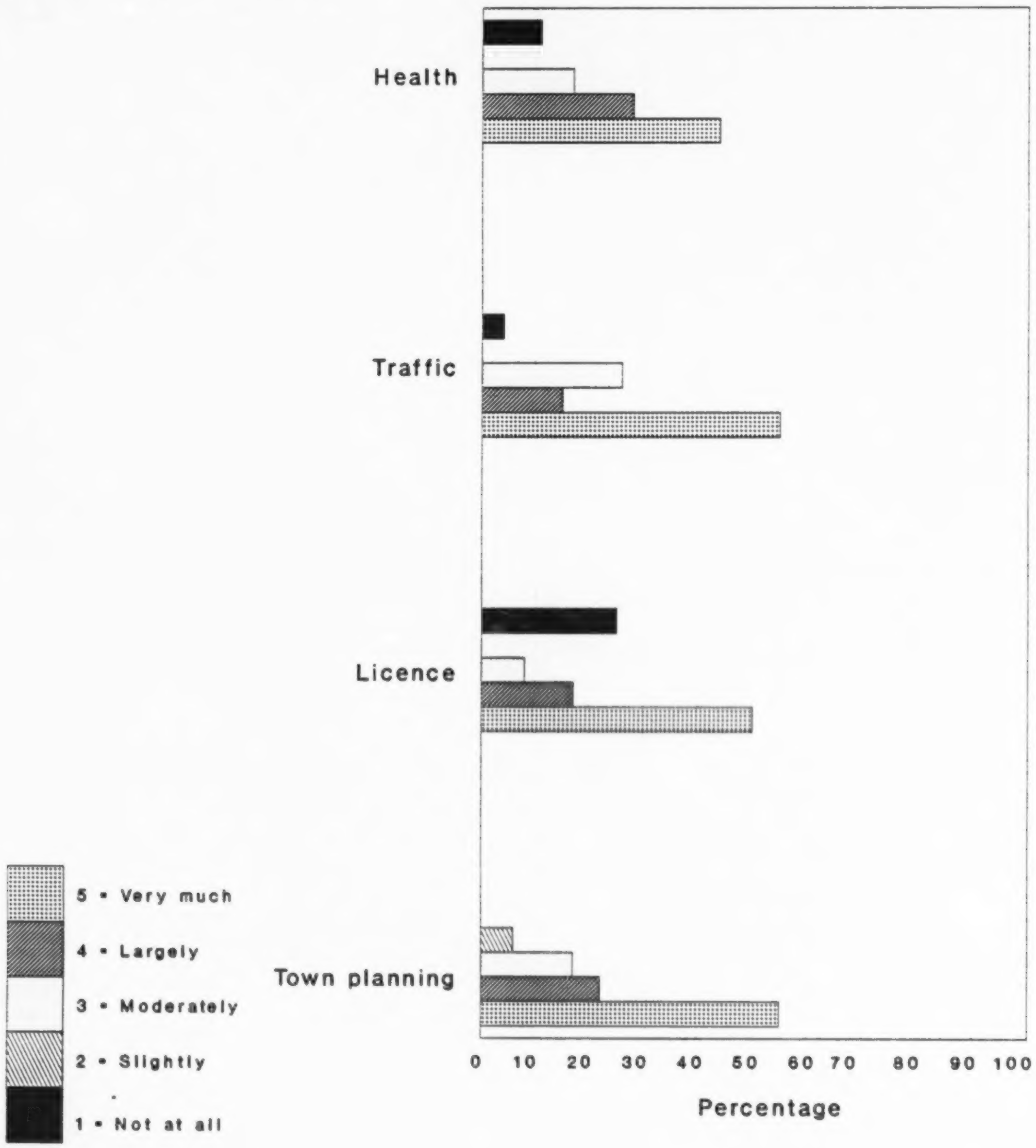


FIGURE 9.1 (Continued)
THE EXTENT TO WHICH MUNICIPAL OFFICIALS FELT THAT MORE EMPHASIS SHOULD BE PLACED ON EDUCATION ACCORDING TO THE DEPARTMENT IN WHICH THEY WORKED

(d) Advertising appropriately

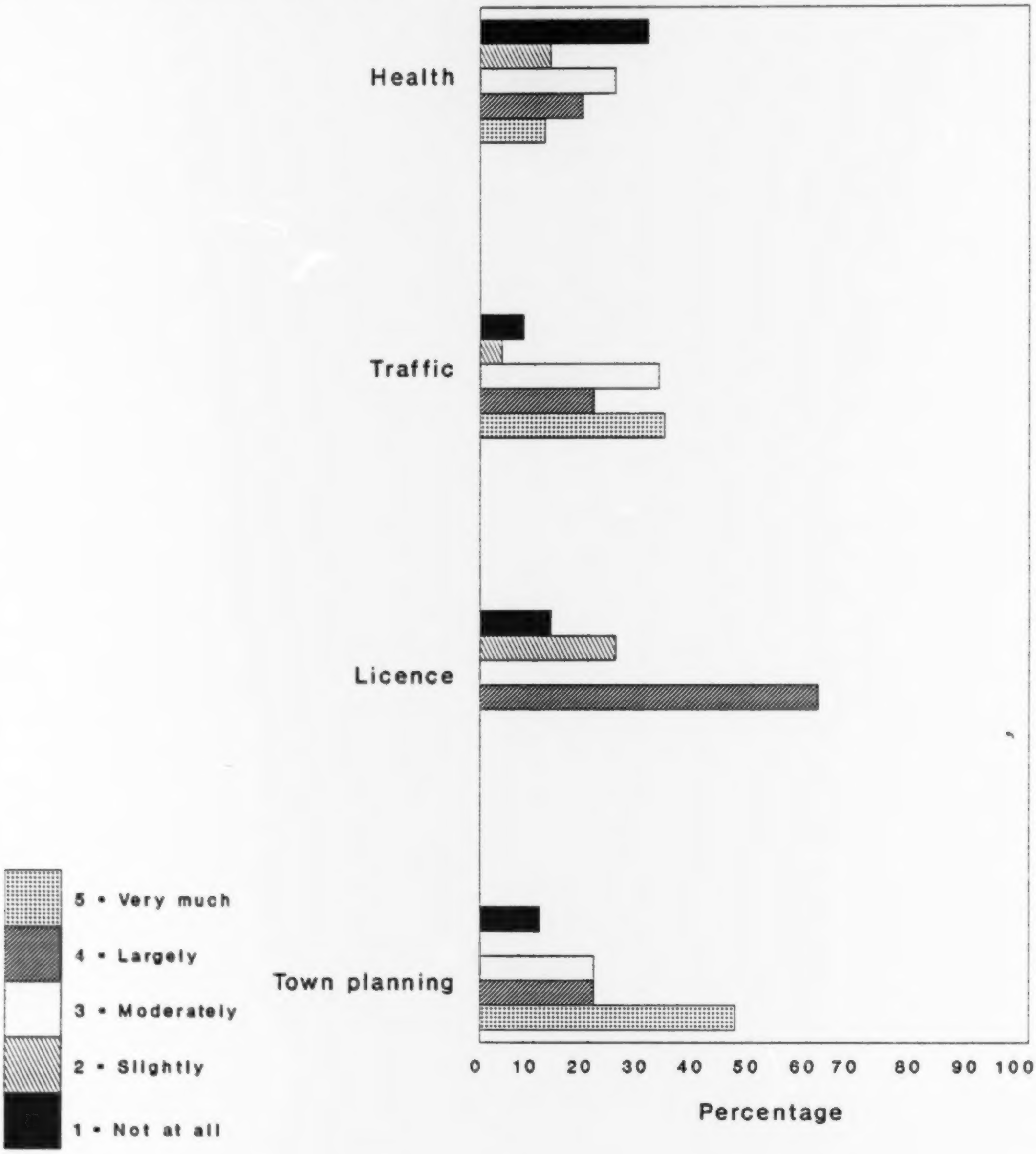


FIGURE 9.1 (Continued)
THE EXTENT TO WHICH MUNICIPAL OFFICIALS FELT THAT MORE EMPHASIS SHOULD BE PLACED ON EDUCATION ACCORDING TO THE DEPARTMENT IN WHICH THEY WORKED

(e) Fulfilling licencing requirements

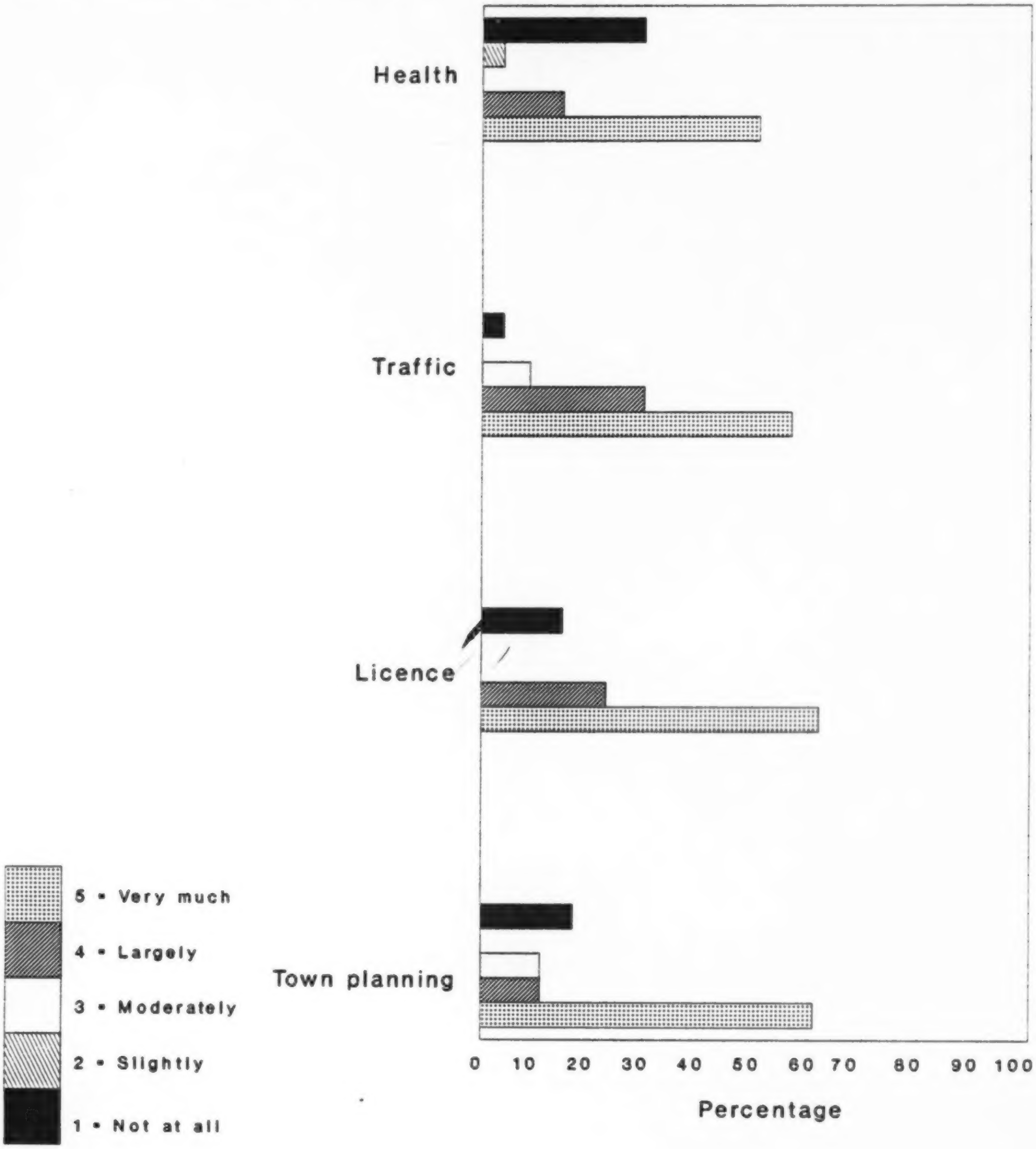


FIGURE 9.1 (Continued)
THE EXTENT TO WHICH MUNICIPAL OFFICIALS FELT THAT MORE EMPHASIS SHOULD BE PLACED ON EDUCATION ACCORDING TO THE DEPARTMENT IN WHICH THEY WORKED

(f) Meeting zoning regulations

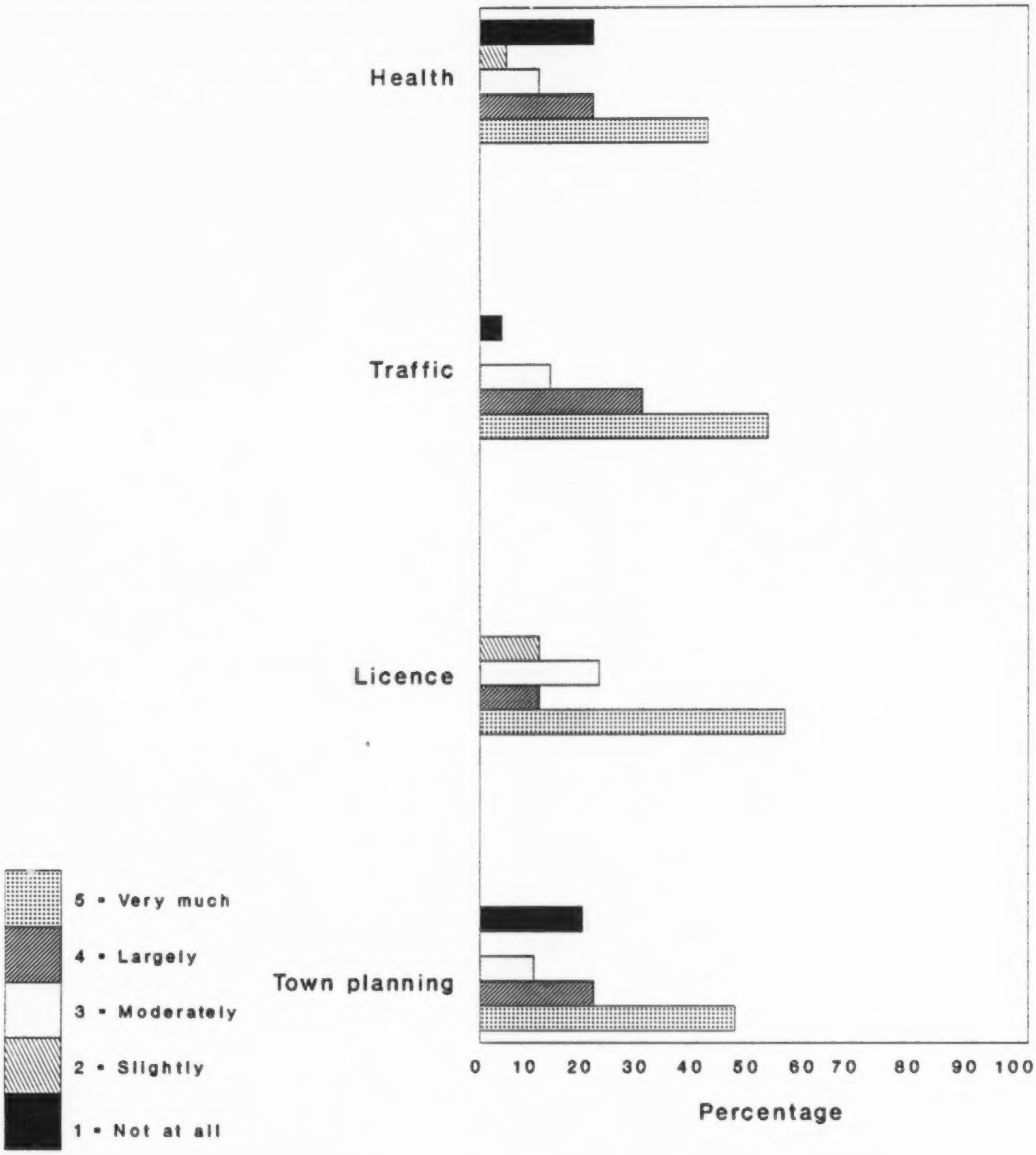
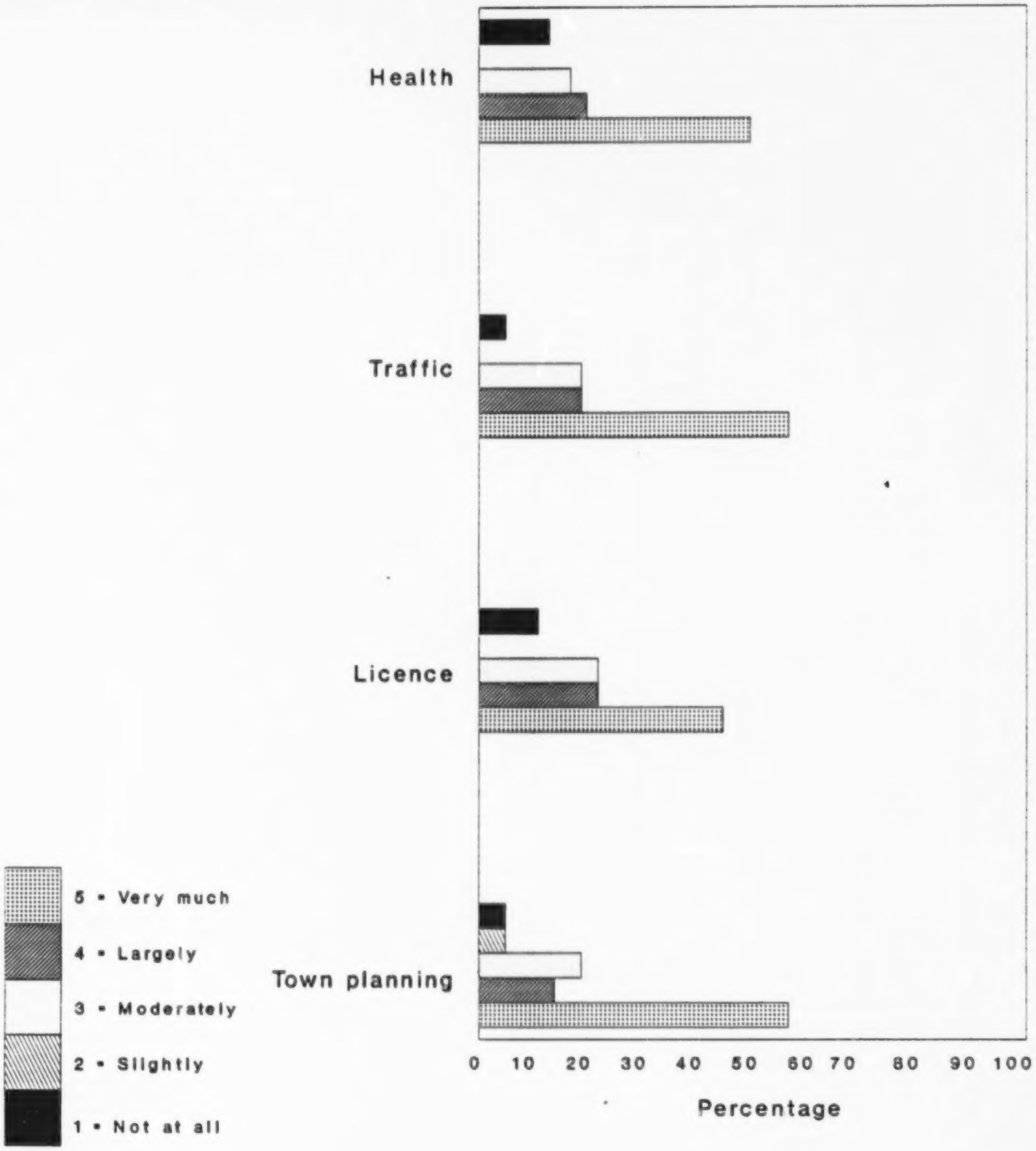


FIGURE 9.1 (Continued)
THE EXTENT TO WHICH MUNICIPAL OFFICIALS FELT THAT MORE EMPHASIS SHOULD BE PLACED ON EDUCATION ACCORDING TO THE DEPARTMENT IN WHICH THEY WORKED

(g) Meeting requirements of structures and premises



CHAPTER 10

TRAINING GUIDELINES

10.1 INTRODUCTION

This study has clearly pointed out that there is an urgent need for training to encourage the development of the informal sector. The future economic circumstances of large numbers of people depend on the way in which micro-enterprises can be facilitated to move away from a poverty bound marginal status to one where the possibility of wealth and employment creation can become a reality.

Training is essentially an enabling process. It allows people to acquire those skills that are needed to overcome both internal and external constraints preventing them from effectively functioning in their environment. In the informal sector, this means that the business owner is empowered to start, to run and to expand a business. Such a business, if it is to succeed, should cater for the needs of the community in which it is situated taking the mainstream economic activities of the broader society into account.

In view of the socio-economic circumstances in which informal businesses function, it is also essential that the context within which the business is situated be taken into account in any training strategy. If training focuses solely on informal business owners, then it will not be sufficient to encourage the development of the informal sector. An environment not merely of tolerance but one of readiness to support the informal sector needs to be created in the country as a whole to ensure that micro-enterprises can flourish. Such an environment can be created through the active promotion of the informal sector. This type of promotion should be viewed as an essential part of training. Both the community in which these businesses function and the wider society all need to be made part of a training partnership. To do this, a national training strategy for the development of the informal sector is needed.

10.2 A NATIONAL TRAINING STRATEGY

When planning a national training strategy, it is suggested here that the model that has been developed for industry based accredited training boards, as set out in the Manpower Training Amendment Act of 1990, could fruitfully be applied to the training of the informal sector. However, for reasons listed below, a training board as such may not be feasible. Instead, a national training co-ordinating body as proposed in the *HSRC/NTB investigation into skills training in the RSA* (1989:169) may be more appropriate. A different type of body to a training board is needed since there are certain differences between informal and formal industries and businesses which need to be taken into account when promoting training in the informal sector.

- The informal sector is not an industry as such, but it incorporates a variety of different activities. Therefore a training board based on the needs of a specific industry would be inappropriate. Instead co-ordination is needed to ensure that training to acquire specific skills to make a specific product or to offer a specific service is integrated with training to acquire business skills.

- The informal sector consists largely of micro-enterprises which are struggling to survive. A levy system operating within the sector to finance a training board would therefore not be possible. Instead, the financing of a national training co-ordinating body would have to be based on a different system. Direct government subsidies and cash grants need to be considered. Obtaining money from the fund that has been established for the training of the unemployed in terms of the Manpower Training Amendment Act of 1990 is another possibility that requires further investigation. Research is urgently needed on methods of financing the establishment and the running of a body to oversee and co-ordinate training for the development of the informal sector.

- Unlike a training board which focuses on one group, namely the trainees within an industry, a training body taking responsibility for the informal sector would be required to involve other groups such as financiers, suppliers and consumers in the training process. In order to avoid such an organisation becoming bureaucratic and losing touch with those for whom it has been created, it will also be necessary to involve members of the informal sector as well as organisations that serve members of the informal sector.

10.3 THE STRUCTURE OF A SEPARATE TRAINING BODY FOR THE INFORMAL SECTOR

In spite of these differences in the way in which a national training co-ordinating body for the informal sector would be established and financed, as compared to the way in which industry based training boards are at present established and financed, such a training body is regarded by the researchers as being essential. This type of body would ensure that informal business owners have access to appropriate and relevant training which is integrated with skills training in other industries.

However, to actually ensure that this training is integrated with other skills training that is taking place throughout the country, such an informal sector training co-ordinating body should, in the opinion of the researchers, be accredited by the Department of Manpower in the same way that training boards are accredited. It should also establish links with the National Training Board and with other accredited training boards.

The researchers also felt, for the reasons listed below, that such a training body should be separate from a training body that caters for small business development in the formal sector.

In the *HSRC/NTB investigation into skills training in the RSA* (1989:132) the research findings indicated that *"there will be a growing need to consider training for the formal and the informal sectors separately, the latter being a specific form of response to structural unemployment."*

The present research findings also indicate that the training needs of the owner of a small business in the formal sector and those of the informal small business owner differ substantially from each other, even though there are areas of common interest. A developmental approach is needed for training business owners in the informal sector to help address some of the problems of poverty and underdevelopment while at the same time addressing the needs of the community, whereas a market oriented approach is needed for the training of formal business owners.

This is not to deny that there is a certain amount of overlap, particularly when considering training to enable informal business owners to enter the formal sector. However, the differences in the approaches needed to train the vast majority of informal business owners to enable them to start or to run a business profitably, are more significant than the extent of the overlap.

Two different training co-ordinating bodies may therefore be needed, one to cater specifically for the informal sector and one for small business development in the formal sector. However, these two organisations would have to work closely together to ensure that it is possible for training to help bridge the gap between informality and formality.

At present, the Department of Trade and Industry grants subsidies to tertiary educational institutions offering a small business training programme to its students. However, there are many other organisations, in addition to tertiary educational institutions that offer training to small business owners. Research is needed to determine the actual number of organisations giving this type of training and the extent to which informal businesses have access to training in these organisations. In spite of this need for training, it is nevertheless suggested here that all organisations involved in training for small business owners in the formal or in the informal sector be linked to the accreditation system of the Department of Manpower. This could be done through the establishment of two separate training co-ordinating bodies for the formal or the informal sector. This accreditation would ensure that wider recognition is given to all organisations encouraging the development of small businesses generally and the informal sector in particular.

In view of the negative connotations associated with the term *"the informal sector"*, it is suggested that the two training bodies referred to above adopt names that avoid reference to the legal status of a business. For example, the terminology of the Development Bank could be used. One body could be called *"the training co-ordinating body for owners of emerging businesses"* while the other could be called *"the training co-ordinating body for established small businesses."*

10.4 FUNCTIONS OF A NATIONAL INFORMAL TRAINING CO-ORDINATING BODY

If a separate co-ordinating body is established to oversee the training of the informal sector, it could serve the following functions:

- co-ordinating the training that is given to informal business owners,
- setting standards for such training,
- involving other parties in the training of the informal sector in a training partnership,
- promoting the informal sector as a viable business sector to the general public and to potential customers,
- encouraging financial organisations to explore new ways of financing this sector,
- encouraging formal businesses to form links with informal businesses,
- encouraging suppliers to develop links with informal businesses,
- encouraging business associations to accept informal business owners as members and to cater for the specific needs of informal businesses,
- encouraging the development of co-operative ventures between informal business owners, such as joint buying, transport and financial ventures,
- encouraging the development of mentorship programmes for informal business development,
- developing a method of evaluation of small business training programmes,
- introducing an after care programme as facet of informal sector training,
- developing a programme for training those involved in training in the informal sector,
- introducing training courses for officials in municipalities and in government departments to enable them to give guidance and education to informal business owners and
- encouraging the further deregulation of the informal sector, while at the same time promoting the introduction of legislation to protect the rights of informal business owners and their customers to do business with each other.

If such a body is brought into being, then training guidelines for the development of the informal sector can be given more relevance and more significance.

10.5 TARGET GROUPS FOR A TRAINING STRATEGY

Taking into account the need for a co-ordinating body to facilitate the training in the informal sector, the following groups can be targeted so that attention can be focused on them in any training strategy.

- Potential informal business owners including those who wish to start a business in the informal sector, the unemployed who are unable to find other work, those from disadvantaged backgrounds, migrants to the cities, the rural poor and people lacking skills to enable them to find employment in the formal sector form the first target group. Harper's (1989) Type C training programmes are relevant here. (Refer to section 2.4 of Chapter 2 for a discussion of Harper's training programmes.) Creating an awareness among the unemployed and disadvantaged groups of the possibility of entering the informal sector and becoming self-employed, is an important consideration.

- Informal business owners who have already started a business form the second target group. Harper's (1989) Type B programmes are relevant here. Skills are needed to enable these business owners to function more efficiently within the informal sector.

- Well established business owners who wish to expand their business, including those who wish to enter the formal sector, form the third target group. Harper's (1989) Type A training programmes are relevant here.

- Owners of formal businesses, including small and large concerns as well as large corporations form the fourth target group. The encouragement of interactions to develop between businesses in both sectors should be part of a training strategy so that products and services are exchanged between both sectors for mutual benefit and so that subcontracting arrangements are entered into between both sectors. Fears of certain business owners in the formal sector that their businesses are threatened by the development of the informal sector will also need to be addressed.

- Suppliers and potential suppliers of informal sector businesses form the fifth target group. Ways in which informal business owners can gain access to suppliers, credit arrangements that can be entered into between the two sectors and delivery arrangements need to be considered as part of a training strategy.

- Financiers in the formal sector, including banks and development agencies form the sixth target group to be included in a training strategy. Ways in which credit can be made available to informal business owners, new ways of evaluating risks, ways to cut down on the expenses involved in granting a loan and new structures to cater for the financial needs of the informal businesses all need to be explored.

- Business associations, including those catering for businesses in the formal and the informal sectors form the seventh target group. A training strategy for this diverse group could be three pronged. Firstly the forming of links between organisations looking after the interests of formal businesses and those looking after the interests of informal ones needs to be encouraged.

Secondly, the formation of a variety of associations, including joint ventures and co-operatives, to cater specifically for the needs of informal business owners should also be encouraged. This would include the establishment of buying associations, marketing co-operatives, joint transport ventures and financial associations such as credit unions and stokvel clubs. Thirdly, specific training on how to manage such an association is needed.

- The eighth target group consists of authority figures, such as municipal officials and police who come into contact with informal business owners. Specific training is needed to enable these officials to give information to and to educate informal business owners so that they are aware of and can prevent the infringement of legal requirements.

- The ninth target group around which a training strategy needs to be developed is that of the general public. Active promotion of the informal sector is needed to encourage the public not only to accept this sector as part of the South African economy, but also to support it by buying informal goods and services. Customers or potential customers of this sector therefore form part of this target group.

- Finally, school children also need to be seen as a target group to encourage the development of entrepreneurship among people who will be entering the labour market in future.

Training guidelines taking all these groups into account will now be given. As far as the three target groups constituting informal business owners are concerned, general guidelines applicable to all three groups will be formulated, then specific guidelines for each group will be outlined.

10.6 TRAINING GUIDELINES FOR INFORMAL BUSINESS OWNERS

10.6.1 General guidelines

- Training for informal business owners should include not only formal classroom situations, but also giving advice, counselling, consultations and mentorship.

- Individual methods of training, such as counselling and mentorship are important because attention can then be focused on the specific needs and problems of the particular business owner, rather than on general needs.

- In view of the high costs entailed in giving individualised training, ways and means will have to be found to encourage those people with business skills to become involved in training programmes. Retired business people, people seconded as trainers from larger organisations, suppliers and business owners in the formal sector who have contact with informal business owners can all be encouraged to play a counselling or mentorship role. Schemes such as these have already been introduced by organisations such as the Small Business Development Corporation and the Urban Foundation. These efforts need to be encouraged.

- As far as classroom type training is concerned, a competency based modular training system is needed. Business skills modules which are useful in themselves but which can also be combined with other modules should be introduced. In this way a variety of topics can be covered at different levels of sophistication to meet the needs of diverse people with varying levels of education coming from heterogeneous backgrounds. The informal business owner can then select the courses that best meet his or her specific needs.

- The courses should be based on a practical, problem solving approach rather than on a theoretical one. Case studies, participatory workshops, group discussions, finding successful business owners who can act as role models and who can give talks to the class and simulated role play situations are effective methods of training informal business owners. Giving lectures without allowing for feedback is less effective, since active participation, rather than passive listening is needed (Hirschowitz *et al.* 1989).

- All training should begin by trying to enter the frame of reference of the trainee. The skills and knowledge that trainees have acquired through their past life and work experiences should be taken as a starting point and these experiences should be built on to ensure that training is effective.

- All training that takes place in a classroom situation should be transferrable to real life situations. Ways in which to ensure that this does occur will need to be found, which implies that ways of evaluating how training is applied in the business setting of the trainee should be developed.

- Basic literacy and numeracy training and functional literacy in business terminology should be part of a training programme for those who need it.

- In order to make training as widely accessible as possible, the mass media should be used. Television programmes, newspaper articles, radio broadcasts containing information that is useful to informal business owners and the development of magazines dealing with issues affecting informal businesses should be encouraged.

- Other ways of making training available to large numbers of people include the introduction of mobile training clinics which give advice to informal business owners who need it in rural and in underdeveloped urban areas (Ramos *et al.* 1977).

- Self-selection, in which the people who want and who actively seek training is probably the most effective method of selecting trainees for training in both classroom situations and for mentoring, counselling and advice.

- An after care service to enable trainers to follow the progress that is being made by trainees is an important aspect of any training programme.

10.6.2 Training for entering the informal sector

In addition to the above general training guidelines, specific guidelines are needed regarding the contents of training modules for entering a business.

- Skills training to enable the trainee to manufacture a specific product or to offer a particular service should be linked to training to acquire basic business skills. Channels to enable these links to be formed within different sections of training organisations and between organisations need to be formed.

- Training to give general information on the nature of business and to encourage people from disadvantaged backgrounds to enter the informal sector is an important consideration that should form part of a training programme.

- Training modules or individualised mentorship should at this stage focus on such factors as
    - ascertaining whether or not there is a need for the product or service within the community,
    - finding out whether or not there are other businesses in the area offering a similar product or service which could affect the viability of the new venture,
    - determining how it would be best to display the goods and services taking the type of premises from which they will be sold into account,
    - exploring methods of attracting customers to the business, taking into account financial limitations regarding money that can be spent on marketing and advertising,
    - finding out how to obtain the needed tools and equipment, bearing in mind the possibility of sharing these with others in similar businesses,
    - ascertaining where and how to obtain supplies as cost effectively as possible, bearing in mind the possibility of joining a buying co-operative,

  - determining where and how to obtain transport for the business, bearing in mind the possibility of forming joint ventures with other business owners around transport needs,
  - exploring alternative methods of obtaining finance to start the business, including how to meet the requirements of banks and development agencies in the area.
  - learning about health, safety and other considerations that need to be taken into account when starting a business,
  - learning how to develop realistic methods of quality control to enable the informal business owner to manufacture goods or offer services of a consistently high quality, taking into account the type of machinery or equipment that will be available and the extent of labour intensity of the methods to be used.

- During this stage, the encouragement of the development of entrepreneurship could be an important training goal. Although there is some doubt about methods to be used to achieve this goal (Harper 1984), reducing fears of failure, building up confidence and assertiveness training are some methods that have been tried.

10.6.3 Training for running a business in the informal sector

Once the business is established, the emphasis of training can move away from those aspects that are important to enable the individual to start the business towards being able to run the business as profitably as possible. Obviously there is overlap between those skills that are needed to start a business and those that are needed to run it. A modular system or individualised training would give the trainee the choice in deciding when a specific type of training is most needed.

- Modules can be developed or mentorship can be given in the following areas:
  - business management, for example planning to buy on time, stocking goods that are most likely to be in demand, managing a cash flow, budgeting and handling security;
  - record keeping, for example keeping count of stock, inventory control, and basic book-keeping;
  - financial management, for example handling of credit, debt and repayments;
  - customer relations, for example selling and marketing skills, offering a personalised service, handling complaints and building loyalty.

- In addition the technical base that is needed in some businesses can be built on and upgraded to improve standards of production and quality control. This may include training in machine maintenance and repairs, if and when necessary.

- Training to acquire more product knowledge and putting the trainee in touch with sources from which information can be obtained on new products may also be necessary at this stage.

- The building of networks with other people in the community who can be potential sources of help can also be encouraged at this stage.

- The possibility of involving the family in the business can also be explored as part of training.

10.6.4 Training to expand the business

When a business is well established in the informal sector, and the business owner wishes to expand it or wishes to enter the formal sector, the emphasis on training can shift towards strategic planning and meeting legal requirements.

- Differences between operating a formal and operating an informal business need to be examined, including
    - exploring ways in which to meet legal requirements so that the business can become formal.
    - learning about principles and systems of taxation.
    - finding out about legislation affecting employees, including laws relating to basic conditions of service, labour relations, unemployment insurance and health and safety of employees at work.

- In addition to these differences, training also needs to give the trainee knowledge on
    - drawing up a business plan in order to obtain clarity on goals of the business and how to achieve these goals.
    - finding new markets for goods and services.
    - advertising the product or service.
    - distributing the product to a wider area.
    - developing a financial management strategy.
    - developing a business management strategy.
    - developing a strategy for handling customer relations.
    - developing a strategy for handling employees.
    - investment of profits.

- Skills to enable the trainee to assess the risks involved in taking alternative courses of action in the business can also be acquired at this stage through training.

10.7 TRAINING INVOLVEMENT OF OTHER GROUPS

In addition to informal business owners themselves, other groups that interact with or that could potentially interact with informal business owners will need to be taken into account in a training strategy. Approaches will have to be made to established businesses in the formal sector, to suppliers and to financiers in the community and to the general public to involve them in a training partnership.

An outreach programme will be needed to market the concept of working together with the informal sector. One of the functions of a national training co-ordinating body would be to initiate such a programme and to encourage training organisations to participate in it. Training organisations need to make formal business owners and others aware of the benefits that could accrue to them through supporting the informal sector. Advertising campaigns, using not only mass media of communication but also local newspapers and magazines and distributing pamphlets among local shopkeepers and residents could be ways of promoting interactions between the two sectors.

Talks and discussions can be held with various interest groups on the potential of the informal sector. At business seminars and conferences, for example, papers could be presented on working with the informal sector. Lecturers and tutors at management schools, those teaching commercial subjects at universities and other training institutions could be encouraged, through a national training co-ordinating body, through training boards and other training organisations to include material on the development of the informal sector as part of the curriculum.

Examining bodies such as the Institute of Bankers could be encouraged to include questions on granting loans to the informal sector in its examinations.

Consumer associations could be approached to distribute information on supporting the informal sector among consumers. Consumer associations could also be encouraged to create a forum to handle complaints and problems that consumers experience when dealing with informal business owners. For example, a local bureau could be set up in the community to deal with complaints against business owners in the informal sector.

As part of their training, municipal officials and the police could be given instruction on dealing with the informal sector through an educative and training approach.

10.8 CONCLUSION

If the informal sector is going to consist of thriving business enterprises in the future; if it is going to help to create employment and wealth in the country in the future; if it is going to contribute to economic growth, then ways and means will need to be found not only to improve the skills of informal business owners but also to promote it. Only through a national training strategy can an effective co-ordinated programme of training for the informal sector be implemented. A commitment to promote this sector will need to be obtained, not only from training organisations but also from the communities within which these businesses operate and the broader society. Entrepreneurship will need to become a highly valued characteristic. This means that schoolchildren will need to be exposed to business principles. The mass media will also need to play a role in encouraging the development of the informal sector.

10.8.1 Action plans

It is suggested that the following actions be taken to ensure that the training of the informal sector is appropriate and well co-ordinated.

- A national training co-ordinating body as proposed in the *HSRC/NTB investigation into skills training in the RSA* (1989) should be formed.
- However, two separate bodies, namely one for training for small businesses in the formal sector and another for training for small businesses in the informal sector are needed so that specific training needs of the informal sector can be taken into account.
- As far as the structure of such a body for the informal sector is concerned, representatives of informal sector business owners, of small formal business owners, of development agencies, of larger businesses in the private sector including suppliers, of corporations, of banks and of the public sector should all be involved in establishing such a body.
- A national training strategy for the informal sector should be formulated by this body.
- Such an informal sector training body could be part of the training partnership of the National Training Board and other training organisations.
- A *"SWOT"* analysis, analysing the strengths, weaknesses, opportunities and threats of the informal sector could serve as a point of departure for developing a national training strategy.
- Research should be undertaken to identify all organisations offering training for the informal sector.

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